

# Essex County Council Annual Financial Report 2012/13



Essex County Council



# Contents

---

Essex County Council's Annual Financial Report for 2012/13 is divided into several distinct sections, as follows:

Section	Content	Page
One	Explanatory Foreword	3
Two	Statement of Accounts	12
Three	Annual Governance Statement	187
Four	Independent Auditor's Report	215



# **Explanatory Foreword**

# Section One – Explanatory Foreword

---

## 1. Introduction

The Council's overarching aim is for Essex to be a vibrant place, where every individual and community has the opportunity to grow and reach their potential and play a part in our county's success by:

- Enabling every individual to achieve their ambitions by supporting world-class education and the skills offer in the county;
- Securing the highways, infrastructure and environment to enable businesses to grow;
- Improving public health and wellbeing;
- Protecting and safeguarding vulnerable people; and
- Giving people a greater say, and a greater role, in building safer and stronger communities.

These priorities, as articulated in the Council's 'EssexWorks: Corporate Plan 2012-2017', provide the backdrop against which the 2012/13 Revenue Budget and Capital Programmes were set.

Through careful financial planning and control, at the end of 2012/13 Essex County Council's finances remain robust.

## 2. Revenue Expenditure

### 2.1 Background to the 2012/13 Budget

The 2012/13 Revenue Budget was set following a thorough review of priorities, spending pressures, efficiency programmes and the availability of government funding to reflect the priorities of the people of Essex and to meet statutory obligations. In total, the Council planned to spend some **£2.144bn** on delivering services, of which **£1.286bn** was to be financed from income and specific and general government grants. Budgeted net expenditure therefore originally amounted to **£858m**. The net budget was financed from Revenue Support Grant (**£5m**), non-domestic rates (**£270m**) and local taxpayers (**£581m**) and by a withdrawal of **£2m** from the Council's General Fund Balance.

As a consequence of a robust review process, savings and efficiencies were identified to allow resources to be directed at addressing the Council's priorities. These savings, combined with an increase in general government grants, allowed for inflationary pressures and new investment of **£136m**.

The Council Tax for band D amounted to **£1,086.75**. This was the same as that for 2010/11 and 2011/12. As the Council did not increase its Council Tax again this year, it received government funding equivalent to a **2.5%** increase in Council Tax.

# Section One – Explanatory Foreword

## 2.2 Outturn position

The Revenue Budget is aligned to the portfolios of the Council's Cabinet Members, according to their specific responsibilities for discharging the functions of the Cabinet. Cabinet Members monitored actual spending against their approved budgets throughout the year, and Cabinet reviewed the overall position on a quarterly basis.

The end of year position is set out within the table below. This compares actual net expenditure with the final approved budget for the Cabinet Members' portfolios, and shows how net expenditure was financed.

	Budget		Actual net expenditure £000	(Under) / Over spend against final estimate	
	Original £000	Final Estimate £000		£000	%
Adult Social Care	316,723	315,849	316,998	1,149	0.36%
Families and Children	155,447	134,961	133,969	(992)	0.74%
Highways and Transportation	90,651	91,192	92,641	1,449	1.59%
Education and Lifelong Learning	52,429	63,047	61,748	(1,299)	2.06%
Waste and Recycling	62,925	62,633	62,736	103	0.16%
Public Health and Wellbeing	26,909	27,408	27,389	(19)	0.07%
Libraries, Communities and Planning	22,601	22,473	22,354	(119)	0.53%
Economic Growth and Infrastructure	2,261	3,983	4,376	393	9.87%
Leader and Finance	24,889	23,903	23,676	(227)	0.95%
Transformation and Corporate Services	365	495	437	(58)	11.72%
Recharged strategic support services	68,855	78,984	77,577	(1,407)	1.78%
<b>Net expenditure by Portfolios</b>	<b>824,055</b>	<b>824,928</b>	<b>823,901</b>	<b>(1,027)</b>	<b>0.12%</b>
Other operating costs					
Interest, capital financing and dividends	51,594	42,465	42,358	(107)	0.25%
Emergency Contingency	8,000	8,000	-	(8,000)	100.00%
Appropriations to/(from earmarked revenue reserves)	54,258	49,092	56,563	7,471	15.22%
<b>Net expenditure (including operating costs)</b>	<b>937,907</b>	<b>924,485</b>	<b>922,822</b>	<b>(1,663)</b>	
General government grant (excl. Revenue Support Grant)	(79,764)	(88,975)	(89,078)	(103)	0.12%
<b>Total net expenditure</b>	<b>858,143</b>	<b>835,510</b>	<b>833,744</b>	<b>(1,766)</b>	<b>0.21%</b>
Contributions to the General Balance					
Planned contribution	(2,356)	20,769	20,769	-	-
Amounts to be carried forward	-	-	1,579	1,579	100.00%
Underlying over spend	-	-	187	187	100.00%
<b>Net Total</b>	<b>855,787</b>	<b>856,279</b>	<b>856,279</b>	<b>-</b>	<b>-</b>
<b>Financed by</b>					
Revenue Support Grant	(5,226)	(5,226)	(5,226)	-	-
National non-domestic rates	(269,574)	(269,574)	(269,574)	-	-
Council taxpayers	(580,987)	(581,479)	(581,479)	-	-
<b>Total Financing</b>	<b>(855,787)</b>	<b>(856,279)</b>	<b>(856,279)</b>	<b>-</b>	<b>-</b>

The outturn position on the Revenue Budget shows a net under spend for the year of **£1.766m**. This position reflects:

- A net under spend by services of **£1.027m**;
- A small under spend of **£107,000** on interest and capital financing;
- **£8.0m** of the budget set aside as an emergency contingency not being needed to support services' expenditure in 2012/13;

# Section One – Explanatory Foreword

---

- The appropriation of **£7.471m** into various earmarked reserves; and
- The receipt of additional general government grants of **£103,000**.

The presentation of services' expenditure in the above table differs from that provided in the Comprehensive Income and Expenditure Statement, which is shown according to the mandatory service headings specified by the CIPFA Service Reporting Code of Practice 2012/13 (see note 30 to the Statement of Accounts, which commences on page 101, for further details).

## 3. Capital Expenditure

### 3.1 Background to the Budget

Capital expenditure (*including 'revenue expenditure funded from capital under statute'*) was originally estimated to amount to **£135m** in 2012/13, and was to deliver new and improved facilities such as schools and roads. The capital programme was created following a rigorous assessment of schemes against relevant criteria, including those derived from Corporate Plan priorities.

The Council determined that it would borrow up to **£38m** for capital financing purposes in 2012/13. The remainder of the capital programme was to be financed from grants and contributions (**£96m**) and from reserves (**£1m**).

### 3.2 Outturn position

Capital payment guidelines were increased during the year to **£146m**, primarily to take account of slippage in schemes from 2012/13 and other additions. In comparison, actual expenditure amounted to **£119.598m**, giving rise to an under spend of **£26.402m**.

The end of year position is set out in the following table, which compares actual expenditure with the final approved budget by portfolio, and shows how the expenditure has been financed.

# Section One – Explanatory Foreword

	Original approved expenditure	Final approved expenditure	Actual Capital Payments	Variance from approved expenditure over / (under)
	£000	£000	£000	£000
<b>Capital payments</b>				
Adult Social Care	-	496	33	(463)
Families and Children	-	1,148	978	(170)
Highways and Transportation	52,594	59,205	51,090	(8,115)
Education and Lifelong Learning	40,008	55,845	43,349	(12,496)
Waste and Recycling	21,339	2,913	1,628	(1,285)
Libraries, Communities and Planning	2,390	5,366	3,756	(1,610)
Economic Growth and Infrastructure	2,500	7,337	7,055	(282)
Transformation and Corporate Services	15,750	13,690	11,709	(1,981)
<b>Total of capital payments financed</b>	<b>134,581</b>	<b>146,000</b>	<b>119,598</b>	<b>(26,402)</b>
<b>Financed by</b>				
Borrowing	37,560	37,957	-	37,957
Government grants and contributions	95,766	103,199	96,897	6,302
Capital receipts	-	1,969	12,942	(10,973)
Earmarked reserves applied	1,255	2,875	9,759	(6,884)
<b>Total financing</b>	<b>134,581</b>	<b>146,000</b>	<b>119,598</b>	<b>26,402</b>

The under spend largely results from slippage in capital projects. **£24.083m** of the under spend will therefore be carried forward to meet the costs of these projects in 2013/14.

## 3.3 Capital projects undertaken

The most significant of the capital projects undertaken during 2012/13 were as follows:

Major schemes	Capital payments (£000)
▪ Highways maintenance (Countywide)	
▪ Roads	25,943
▪ Footways	2,956
▪ Street Lighting	3,482
▪ A13 / A130 Sadler's Farm Junction	6,316
▪ De La Salle School (Basildon)	5,902
▪ Modernisation of information and communications technology	5,428
▪ Canvey Vocational Centre	5,335
▪ Education capital maintenance (Countywide)	5,032
▪ Shorefields School (Clacton)	4,031

## Section One – Explanatory Foreword

Major schemes	Capital payments (£000)
▪ Newbridge House (Chelmsford)	3,353

### 3.4 Significant disposals

The most significant asset disposals during 2012/13 are as follows:

Significant disposals	Capital receipts (£000)
▪ Park Road (Colchester)	3,113
▪ Essex Commercial Services Workshops (Chelmsford)	1,025
▪ Land at the Chelmsford Business Park site	573
▪ Lexden Road Property (Colchester)	479
▪ Property in Weald Country Park	400

In addition to disposal of the above sites, the Council removed various community and voluntary controlled schools from its Balance Sheet during the financial year, upon their conversion to foundation, voluntary aided or academy status.

## 4. Borrowing

### 4.1 Long term borrowing

The Council undertakes long term borrowing, for periods in excess of one year, in order to finance capital expenditure. In 2012/13, the Council was able to temporarily utilise its cash balances, held for other purposes, to defer the need for additional external borrowing, which is a cost effective means of supporting capital expenditure.

### 4.2 Short term borrowing

The Council undertook short term borrowing during 2012/13 in accordance with its agreement to temporarily borrow the surplus cash balances of the Essex Probation Board and Essex Cares Ltd.

# Section One – Explanatory Foreword

---

## 5. Investments

The Council's surplus cash balances were invested in accordance with guidance issued by the Government. The primary objectives were:

- Firstly, to safeguard the principal sums invested;
- Secondly, to ensure adequate liquidity; and
- Thirdly, to consider investment returns or yield.

Surplus cash balances were mainly invested on a short term basis (up to a maximum period of 364 days), until the funds were next required. Funds were invested with the UK Government, other local authorities, money market funds and bodies with high credit ratings.

The Council also lent funds to Essex Cares Ltd and Library Services (Slough) Ltd during 2012/13, as part of its agreement to provide treasury management support to these entities. Interest was charged on amounts lent to these entities, in accordance with the terms of formal agreements with these parties.

## 6. Considerations for 2013/14

### 6.1 Revenue investment plans

The revenue budget for 2013/14 has been set at a time of unprecedented change in the Local Government Finance framework, including:

- The introduction of the Local Government Rates Retention Scheme, which provides for the retention of 50% of the yield by local authorities (see note 6.5, on page 10 for further explanation of this change);
- A change to the role of the Revenue Support Grant, which now provides the mechanism for distribution of funding by government of amounts previously awarded as specific grants, and will also be used by the government to reduce spending control totals for local government; and
- The localisation of Council Tax support.

All of these changes alter the make-up of our funding, which make it difficult to make direct comparisons to previous years.

The budget has also been prepared within a context of a difficult economic environment. Due to the inherent uncertainty in the availability of funding for the future, it has been necessary to take a prudent, yet ambitious, approach to planning for the coming years. In this year's budget the Council has pledged to make savings and efficiencies of **£55m** in order to absorb the pressures arising from demographic growth, inflation and other factors. This is on top of savings of **£200m** that the Council is set to make by 2017 as a result of its transformation programme.

# Section One – Explanatory Foreword

---

The budget requirement for 2013/14 is estimated at **£907m**, which is equivalent to a cash reduction of **£8.5m** from the equivalent figure for 2012/13. The Council Tax for band D amounts to **£1,086.75**; this is the same as that for the previous three financial years.

Further details of the Council's revenue investment plans are included in the 2013/14 Revenue Budget, which is available on the Council's web site.

## 6.2 Capital investment plans

Overall, the capital programme for 2013/14 has been set at **£186m**. This programme allows for:

- The creation of an additional 1,000 school places in 2013/14;
- The provision of accommodation for vulnerable people; and
- The enhancement to, and maintenance of, the County's road network.

It is intended to finance the capital programme from a combination of borrowing (**£68m**) and from grants, contributions and reserves (**£118m**).

## 6.3 Borrowing

The Council does not expect to undertake external borrowing in 2013/14, despite increasing its 'Capital Financing Requirement' as a consequence of the capital investment plans referred to in paragraph 6.2 above. The Council will keep this position under review though and, in the event that further external borrowing is necessary, this will be undertaken in compliance with the parameters and limits set for borrowing activity.

## 6.4 Investments

The Council will invest any temporarily surplus cash balances it has until these funds are next required. Usually, this means that funds will be invested on a short term basis (up to a maximum period of 364 days), but some funds will be invested for periods beyond 364 days.

## 6.5 Local government reforms

There are two key reforms that impact on the Council, and its accounting arrangements in 2013/14, as follows:

### ▪ Non-domestic rates reform

Currently, billing authorities pay into the Government's central pool all business rates collected from rate payers within their area. The Government redistributes income from this pool to all local authorities to fund services in its area. However, changes made by the Government to reform non-domestic rates in England have seen the introduction, from 1

# Section One – Explanatory Foreword

---

April 2013, of the Business Rates Retention Scheme, which means that the Council will retain a proportion of the business rates generated in its area to help fund the services it provides.

The Council will be required to recognise business rates income in the Comprehensive Income and Expenditure Statement as it falls due but, as this amount differs from the amount required to be recognised by Regulation, will then be required to effect a reconciling adjustment in the Movement in Reserves Statement to the Collection Fund Adjustment Account. Under the legislative framework for the Collection Fund, the Council will also be required to include in its Balance Sheet an attributable share of debtors for business rate arrears, creditors for overpaid rates and a debtor or creditor for the billing authorities for cash collected, or received in advance, from business rate payers.

## ▪ Public Health reform

The Health and Social Care Act 2012 transferred substantial health improvement duties from local primary care trusts to local authorities on 1<sup>st</sup> April 2013. These duties require the Council to work with other health bodies, such as clinical commissioning groups, and the police and community safety partnerships to:

- Assess the current and future health and social care needs of the local community; and
- Develop a strategy for meeting the identified needs in the local area.

These will be used to inform the Council's health commissioning plans and will impact Council spending in this area. To discharge these new duties, the Council will receive a ring-fenced public health grant (£49m in 2013/14).

Within the Council's 2013/14 Statement of Accounts public health grant and its related expenditure will be disclosed separately within cost of services in the Comprehensive Income and Expenditure Account, as 'Services transferred from local primary care trusts'. This matter has no impact on the 2012/13 Statement of Accounts.

## 7. Conclusion

Through careful planning and management, Essex County Council has been able to close its 2012/13 accounts showing a robust position, which will support the Council in meeting the financial challenges of 2013/14 and beyond.



**Margaret Lee**  
**Executive Director for Corporate Services**  
**30th September 2013**

# **2012/13 Statement of Accounts**

## Section Two – Statement of Accounts

<b>Contents</b>	<b>Page</b>
<b>Introduction</b>	<b>14</b>
<b>Statement of responsibilities for the Statement of Accounts</b>	<b>16</b>
<b>Financial Statements</b>	<b>18</b>
<b>Notes to the Financial Statements</b>	<b>23</b>
<b>Group Accounts</b>	<b>124</b>
<b>Pension Fund Accounts</b>	<b>133</b>
<b>Glossary of terms</b>	<b>182</b>

## Section Two - Introduction

---

### 1. Accounting statements

The Council's accounting statements for 2012/13 are set out on pages 18 to 22, and comprise:

- Movement in Reserves Statement;
- Comprehensive Income and Expenditure Statement;
- Balance Sheet; and
- Cash Flow Statement.

Supplementary information is set out within the notes to the accounts (see pages 23 to 123) to provide further information on the financial performance of the Council during 2012/13.

### 2. Group Accounts

Group accounts are presented, in addition to the Council's single entity statements, in order to provide a full picture of the Council's economic activities and financial position. The Group Accounts comprise:

- Group Movement in Reserves Statement;
- Group Comprehensive Income and Expenditure Statement;
- Group Balance Sheet;
- Group Cash Flow Statement.

These statements, together with explanatory notes and accounting policies, are set out on page 124 to 132.

### 3. Pension Fund

The Essex County Council Pension Fund provides pensions and other benefits to employees of the Council, district, borough and unitary councils and other scheduled and admitted bodies. An annual report and accounts are published for the Fund. However, the accounting statements of the Fund are also included within this Statement of Accounts.

They comprise:

- **Fund Account**

This statement summarises the financial transactions of the Pension Fund for the year.

- **Net Assets Statement**

This statement summarises the net assets relating to the provision of pensions and other benefits payable to former employees of the Council and other admitted bodies.

## Section Two - Introduction

---

Further information is provided in the notes to the Pension Fund accounts (see pages 133 to 181).

### **4. Accounting policies**

Accounting policies are the principles, bases, conventions, rules and practices applied by the Council that specify how the financial effects of transactions and other events are reflected in the financial statements through recognising, selecting measurement bases for, and presenting assets, liabilities, gains, losses and changes in reserves. All of the accounting policies adopted, that are material in the context of the Council's 2012/13 financial statements, are described in the Statement of Accounting Policies, which is set out in Note 2, which commences on page 25.

### **5. Glossary of terms**

A glossary of the terminology used throughout the Statement of Accounts is provided on pages 182 to 186.

## Section Two - Statement of Responsibilities

---

### 1. Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. At Essex County Council, that officer is the Executive Director for Corporate Services.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts. The Council has delegated this responsibility to the Audit Committee.

### 2. Executive Director for Corporate Services' responsibilities

The Executive Director for Corporate Services is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out within the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code of Practice'). In preparing this Statement of Accounts, the Executive Director for Corporate Services has:

- Selected suitable accounting policies and applied them consistently.
- Made judgements and estimates which were reasonable and prudent.
- Complied with the Code of Practice.
- Kept proper, up to date, accounting records.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

### 3. Executive Director for Corporate Services' certificate

I certify that this Statement of Accounts has been prepared in accordance with proper practices, and presents a true and fair view of the financial position of the Council at 31 March 2013 and its expenditure and income for the year then ended.



**Margaret Lee, Executive Director for Corporate Services**  
**30th September 2013**

## Section Two - Statement of Responsibilities

---

### 4. Chairman of the Audit Committee's certificate

I approve these accounts on behalf of the Audit Committee and confirm that they were considered by the Committee at its meeting on **30<sup>th</sup> September 2013**.

A handwritten signature in dark ink, appearing to read 'Susan Barker', is written over a light blue horizontal line.

**Cllr Susan Barker**  
**Chairman of the Audit Committee**  
**30th September 2013**

# Section Two - Financial Statements

---

## Introduction

The financial statements comprise:

- **Movement in Reserves Statement**

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable' reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable' reserves.

The 'Surplus / Deficit on the provision of services' line, which is taken from the Comprehensive Income and Expenditure Statement, is different from the statutory amounts required to be charged to the General Fund Balance. The 'Net increase / decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

- **Comprehensive Income and Expenditure Statement**

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

- **Balance Sheet**

The Balance Sheet shows the value of the assets and liabilities recognised by the Council.

The net assets of the Council are matched by the reserves held by the Council. Reserves are reported in two categories:

- **Usable reserves** - those that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
- **Unusable reserves** - those that the Council is not able to use to provide services. These include reserves that hold unrealised gains and losses that would only become available to provide services if assets are sold; and reserves that hold adjustments between accounting and funding certain transactions which are permitted under regulations.

- **Cash Flow Statement**

The Cash Flow Statement shows the changes, during the reporting period, in cash and cash equivalents of the Council, net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management. It shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

- **Notes to the financial statements**

These present information about the basis of preparation of the financial statements and the specific accounting policies used. They also disclose information that is not presented within the financial statements but is relevant to an understanding of them.

## Movement in Reserves Statement

For the years ended 31 March 2012 and 31 March 2013

	Notes	Usable Reserves					Total Unusable Reserves	Total Council Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves		
		£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2011</b>		(209,109)	(31,991)	(20,966)	(13,009)	(275,075)	(1,035,156)	(1,310,231)
<b>Movement in Reserves during 2011/12</b>								
Deficit on Provision of Services		-	52,655	-	-	52,655	-	52,655
Other Comprehensive Expenditure & Income		-	-	-	-	-	178,610	178,610
<b>Total Comprehensive Expenditure and Income</b>		-	52,655	-	-	52,655	178,610	231,265
Adjustments between accounting basis & funding under regulations	8	-	(94,968)	17,791	(7,591)	(84,768)	84,768	-
<b>Net increase/decrease before transfers to earmarked reserves</b>		-	(42,313)	17,791	(7,591)	(32,113)	263,378	231,265
Transfers to Earmarked Reserves		(11,288)	11,288	-	-	-	-	-
<b>(Increase) / decrease in 2011/12</b>		(11,288)	(31,025)	17,791	(7,591)	(32,113)	263,378	231,265
<b>Balance at 31 March 2012</b>		(220,397)	(63,016)	(3,175)	(20,600)	(307,188)	(771,778)	(1,078,966)
<b>Movement in Reserves during 2012/13</b>								
Deficit on Provision of Services		-	66,678	-	-	66,678	-	66,678
Other Comprehensive Expenditure & Income		-	-	-	-	-	(105,992)	(105,992)
<b>Total Comprehensive Expenditure and Income</b>		-	66,678	-	-	66,678	(105,992)	(39,314)
Adjustments between accounting basis & funding under regulations	8	-	(138,706)	127	(12,709)	(151,288)	151,288	-
<b>Net increase/decrease before transfers to earmarked reserves</b>		-	(72,028)	127	(12,709)	(84,610)	45,296	(39,314)
Transfers to Earmarked Reserves	9	(49,493)	49,493	-	-	-	-	-
<b>(Increase) / decrease in 2012/13</b>		(49,493)	(22,535)	127	(12,709)	(84,610)	45,296	(39,314)
<b>Balance at 31 March 2013</b>		(269,890)	(85,551)	(3,048)	(33,309)	(391,798)	(726,482)	(1,118,280)

For year ended 31<sup>st</sup> March 2013

2011/12				Note	2012/13				
Gross expenditure	Income	Government grants	Net Expenditure		Gross expenditure	Income	Government grants	Net expenditure	
£000	£000	£000	£000		£000	£000	£000	£000	
525,540	(85,317)	(66,881)	373,342		Adult Social Care	514,351	(83,123)	(72,646)	358,582
1,292,943	(83,589)	(872,766)	336,588		Children's and Education Services	1,079,334	(63,735)	(703,129)	312,470
37,373	(5,606)	(391)	31,376		Cultural and Related Services	27,924	(6,059)	(257)	21,608
69,189	(2,372)	(75)	66,742		Environmental and Regulatory Services	75,772	(2,055)	(25)	73,692
147,744	(21,691)	(6,710)	119,343		Highways and Transport Services	135,746	(19,959)	(8,885)	106,902
2,797	(673)	(1,764)	360		Housing Services	1,814	(626)	-	1,188
17,647	(2,433)	(2,998)	12,216		Planning Services	16,399	(2,782)	(1,810)	11,807
					Central Services				
7,365	(3,826)	-	3,539		Central services to the public	7,171	(4,418)	-	2,753
					Non distributed costs				
(72,650)	-	-	(72,650)	7	Settlement of retirement liabilities - academy schools	-	-	-	-
9,169	(15)	(43)	9,111		Other	(22,128)	(57)	(35)	(22,220)
20,210	(185)	(74)	19,951		Corporate and democratic core	40,407	(631)	(1,365)	38,411
2,057,327	(205,707)	(951,702)	899,918		Cost of services	1,876,790	(183,445)	(788,152)	905,193
167,796	-	-	167,796	10	Other Operating Expenditure	151,506	-	-	151,506
128,742	(87,722)	-	41,020	11	Financing and Investment Income and Expenditure	121,665	(75,837)	-	45,828
-	(796,917)	(259,162)	(1,056,079)	13	Taxation and Non-Specific Grant Income	-	(854,718)	(181,131)	(1,035,849)
2,353,865	(1,090,346)	(1,210,864)	52,655		Deficit on Provision of Services	2,149,961	(1,114,000)	(969,283)	66,678
			(108,546)	28.2	Surplus arising on revaluation of non-current assets				(179,384)
			287,156	28.5	Actuarial losses on Pension Fund assets and liabilities				73,392
			178,610		Other Comprehensive Income and Expenditure				(105,992)
			231,265		Total Comprehensive Income and Expenditure				(39,314)

## Section Two - Financial Statements

### Balance Sheet as at 31 March 2013

31 March 2012 £000	Note		31 March 2013 £000	£000
		<b>Property, Plant and Equipment</b>		
		<b>Operational assets</b>		
1,672,150		Land and buildings	1,608,850	
54,773		Vehicles, plant and equipment	68,140	
650,213		Infrastructure	667,957	
3,314		Community assets	3,006	
		<b>Non operational assets</b>		
128,593		Assets under construction	141,135	
4,838		Surplus assets held pending disposal	17,257	
2,513,881	16	<b>Total Property, Plant and Equipment</b>	2,506,345	
14,312	16	Heritage assets	14,340	
3,831	16	Investment property	5,371	
1,819	16	Intangible assets	1,239	
1,693	20	Long term investments	4,638	
24,342	21	Long term debtors	20,885	
<b>2,559,878</b>		<b>Long term assets</b>		<b>2,552,818</b>
18,665	20	Short term investments	184,837	
4,328	16	Assets held for sale	8,318	
184		Inventory	270	
-		Current intangible assets	45	
123,540	21	Short term debtors	107,677	
151,893	22	Cash and cash equivalents	71,654	
<b>298,610</b>		<b>Current Assets</b>		<b>372,801</b>
(8,587)	20	Short-term borrowing	(23,788)	
(251,344)	23	Creditors	(230,258)	
(7,907)	25	Provisions (current)	(6,971)	
(18,907)	24	Revenue grant receipts in advance	(15,957)	
(61,147)	24	Capital grant receipts in advance	(44,337)	
(3,112)	18	Finance Lease obligations (short term)	(3,275)	
<b>(351,004)</b>		<b>Current liabilities</b>		<b>(324,586)</b>
-	23	Long term creditors	(222)	
(21,100)	25	Provisions (non-current)	(25,560)	
(360,449)	20	Long term borrowing	(342,261)	
		Other long term liabilities		
(136,081)	18	Finance lease obligations	(132,678)	
(17,057)		Deferred credits	(16,294)	
(893,831)	33	Pension liability	(965,738)	
<b>(1,428,518)</b>		<b>Long term liabilities</b>		<b>(1,482,753)</b>
<b>1,078,966</b>		<b>Net Assets</b>		<b>1,118,280</b>
		<b>Usable reserves</b>		
(220,397)	9	Earmarked reserves	(269,890)	
(63,016)		General Fund Balance	(85,551)	
(3,175)		Usable capital receipts reserve	(3,048)	
(20,600)		Capital grants unapplied	(33,309)	
<b>(307,188)</b>				<b>(391,798)</b>
	28	<b>Unusable reserves</b>		
(218,739)		Revaluation reserve	(370,904)	
(1,459,916)		Capital Adjustments Account	(1,331,657)	
3,301		Financial Instruments Adjustment Account	3,261	
893,831		Pension reserve	965,738	
(5,221)		Deferred capital receipts	(3,221)	
(2,576)		Collection Fund Adjustment Account	(6,242)	
17,542		Accumulating Compensated Absences Adjustment Account	16,543	
<b>(771,778)</b>				<b>(726,482)</b>
<b>(1,078,966)</b>		<b>Total Reserves</b>		<b>(1,118,280)</b>

## Section Two - Financial Statements

### Cash Flow Statement

For year ended 31 March 2013

2011/12 £000	Notes		2012/13 £000
(86,470)	29	Operating activities	(121,672)
67,203	29	Investing activities	188,185
(47,339)	29	Financing activities	13,726
<b>(66,606)</b>		<b>Net (increase) / decrease in cash and cash equivalents</b>	<b>80,239</b>
<b>85,287</b>		Cash and cash equivalents at 1st April	<b>151,893</b>
<b>151,893</b>		Cash and cash equivalents at 31st March	<b>71,654</b>

## Section Two - Notes to the Financial Statements

### 1. Introduction

This section contains notes which are intended to aid interpretation of the financial statements (as set out on pages 19 to 22) and provide further information on the financial performance of the Council during 2012/13. The notes set out within this section are as follows:

Note		Page
2.	Accounting policies	25
3.	Accounting standards that have been issued but not yet adopted	48
4.	Critical judgements in applying accounting policies	50
5.	Assumptions made about the future and other major sources of estimation uncertainty	50
6.	Events after the Balance Sheet Date	53
7.	Exceptional items	53
8.	Adjustments between Accounting Basis and Funding under Regulations	54
9.	Earmarked revenue reserves	59
10.	Other operating expenditure	63
11.	Financing and investment income and expenditure	64
12.	Trading operations	64
13.	Taxation and non-specific grant income	66
14.	Grant income	67
15.	Dedicated Schools Grant	68
16.	Property, Plant and Equipment	70
17.	Capital expenditure and capital financing	73
18.	Leases	74
19.	Private Finance Initiative and similar contracts	75
20.	Financial instruments	80
21.	Debtors	88
22.	Cash and cash equivalents	88

## Section Two - Notes to the Financial Statements

Note		Page
23.	Creditors	89
24.	Grant receipts in advance	89
25.	Provisions	90
26.	Contingent liabilities	92
27.	Usable reserves	93
28.	Unusable reserves	93
	28.1 Introduction	93
	28.2 Revaluation Reserve	93
	28.3 Capital Adjustment Account	94
	28.4 Financial Instruments Adjustment Account	96
	28.5 Pension Reserve	96
	28.6 Deferred Capital Receipts Reserve	97
	28.7 Collection Fund Adjustment Account	98
	28.8 Accumulated Absences Account	98
29.	Cash Flows from operating, investing and financing activities	99
30.	Amounts reported for resource allocation decisions	101
31.	Termination benefits	107
32.	Pension Schemes accounted for as Defined Contribution Schemes	108
33.	Defined Benefit Pension Schemes	109
34.	Audit costs	115
35.	Members' allowances and expenses	116
36.	Officers' remuneration	116
37.	Senior officers' remuneration	118
38.	Related parties	119
39.	Partnership arrangements	123

## Section Two - Notes to the Financial Statements

---

### 2. Accounting policies

#### 2.1 Introduction

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year, and its position as at 31 March 2013. The accounting policies explain the basis for the recognition, measurement and disclosure of transactions and other events within the Statement of Accounts.

The accounting policies adopted, that are material in the context of the Council's 2012/13 Statement of Accounts, are set out within the following paragraphs.

#### 2.2 General principles

The Council's Statement of Accounts is prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13, supported by International Financial Reporting Standards (IFRS) and statutory regulations.

The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets.

#### 2.3 Accruals of income and expenditure

The Council accounts for income and expenditure in the year that the effects of the transactions are experienced, not simply when the cash payments are made or received. In particular:

- **Sale of goods:** revenue is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser, the amount of revenue can be measured reliably and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- **Rendering of services:** revenue is recognised when the Council can reliably measure the proportion of the transaction that is complete and when it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- **Receipt of goods and services:** expenditure is recognised when the goods are consumed and the services are received by the Council.
- **Interest:** Amounts payable on borrowings and receivable on investments are accounted for on the basis of the effective interest rate for the relevant financial instrument rather than according to the cash flows fixed or determined by the contract.
- **Debtors and creditors:** where income and expenditure has been recognised, but the cash has not been received or paid, a debtor or creditor for the relevant amount is recognised in the Balance Sheet.

## Section Two - Notes to the Financial Statements

---

- **Doubtful debts:** where it is doubtful that debts will be settled, the balance of debtors is reduced and a charge is made for the income that might not be recoverable.

### 2.4 Provisions, contingent liabilities and contingent assets

#### 2.4.1 Provisions

Provisions are recognised when an event has taken place that gives the Council a legal or constructive obligation that can be reliably quantified and which it is probable will be settled by the transfer of economic benefits or service potential.

The Council establishes provisions calculating the best estimate (taking into account relevant risks and uncertainties) of the likely settlement as at the Balance Sheet date, in the year that the Council first becomes aware of the obligations. Where the effect of the time value of money is material, the amount of the provision is discounted to the present value of the expenditure that it is expected will be required to settle the obligation.

Provisions are created by charging amounts calculated to:

- The appropriate service line in the Comprehensive Income and Expenditure Statement for revenue provisions; or
- Property, Plant and Equipment in the Balance Sheet for provisions raised for capital purposes.

When payments are eventually made, they are charged directly to the relevant provision in the Balance Sheet.

The provisions are reviewed annually to ensure that the amounts held on the Balance Sheet represent the best estimates of the expenditure required to settle the obligation. Where a lower settlement is made than anticipated, the excess provision is credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered by another party (e.g. from an insurance claim), this is only recognised as income for the relevant services if it is virtually certain that reimbursement will be received if the Council settles the obligation.

#### 2.4.2 Contingent liabilities

Contingent liabilities are potential obligations that arise from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Council's control.

Contingent liabilities are not recognised in the financial statements, but are disclosed as a note to the accounts, unless the possibility of an outflow of resources is remote.

## Section Two - Notes to the Financial Statements

---

Contingent liabilities are assessed continually. If an outflow of resources becomes probable, a provision is recognised.

### 2.4.3 Contingent assets

Contingent assets are potential assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the Council's control.

Contingent assets are not recognised in the financial statements but are disclosed as a note to the accounts where an inflow of economic benefits or service potential is probable and can be reliably measured.

Contingent assets are assessed continually. If it becomes virtually certain that an inflow of economic benefits or service potential will arise, and the asset's value can be reliably measured, a debtor and the related revenue are recognised in the financial statements.

### 2.5 Earmarked revenue reserves

The Council sets aside specific amounts as reserves for future contingency or policy purposes. Reserves are established by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure is incurred that is to be financed from a reserve, it is charged to the appropriate service revenue account in that year, to score against the Surplus / Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. An amount is then appropriated in the Movement in Reserves Statement, from the Reserve and into the General Fund Balance, so that there is no net charge against Council Tax for the expenditure.

### 2.6 Government grants and contributions

Government grants and third party contributions and donations are recognised as due and credited as income in the Comprehensive Income and Expenditure Statement, when there is reasonable assurance that:

- There are no conditions attached to them or that the Council has complied with the conditions attached to them; and
- The grants and contributions will be received.

Conditions are stipulations that specify that the future economic benefits or service potential embodied in the grant or condition are required to be consumed by the Council as specified, or future economic benefits or service potential must be returned to the awarding body.

## Section Two - Notes to the Financial Statements

Where a grant or contribution has been received, but the conditions are not satisfied, the amount will be carried in the Balance Sheet as a grant receipt in advance.

Once the conditions are satisfied, the grants or contributions are credited to the Comprehensive Income and Expenditure Statement as follows:

Nature of grant	Accounting treatment
Specific revenue grants and contributions	Grants are credited to the relevant service line in the Comprehensive Income and Expenditure Statement.
Specific capital grants and contributions	<p>Grants / contributions are credited to Taxation and Non-specific grant income in the Comprehensive Income and Expenditure Statement.</p> <p>The grant / contribution is then reversed out of the General Fund Balance in the Movement in Reserves Statement and is either transferred to the:</p> <ul style="list-style-type: none"> <li>Capital Adjustment Account if the grant eligible expenditure has been incurred (i.e. to reflect the application of capital resources to finance the expenditure); or</li> <li>Capital Grants Unapplied Account (i.e. to reflect its status as a capital resource available to finance expenditure). When, at a future date, the expenditure to be financed from the grant or contribution is incurred, the grant or contribution is transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure.</li> </ul>
Non ring-fenced grants	<p>Grants are credited to Taxation and Non-specific grant income in the Comprehensive Income and Expenditure Statement when due.</p> <p>Where non ring-fenced grants are awarded to finance capital expenditure, the grant is reversed out the General Fund Balance in the Movement in Reserves Statement and is transferred to the Capital Adjustment Account.</p>

Where revenue grants and contributions are credited to the Comprehensive Income and Expenditure Statement but associated expenditure has not yet been incurred, the grant is set aside, by an appropriation in the Movement in Reserve Statement from the General Fund to an Earmarked Revenue Reserve (i.e. in accordance with Accounting Policy 2.5). This reserve will be drawn upon in subsequent years, to be matched with the related expenditure.

## Section Two - Notes to the Financial Statements

---

### 2.7 Council Tax

Council Tax income included in the Comprehensive Income and Expenditure Statement is the total of the:

- Precept on the Collection Funds of each billing authority; and
- The Council's share of the actual surplus / deficit on the Collection Funds of each billing authority at the end of the current year, adjusted for the Council's share of the surplus / deficit on the Funds at the preceding year end that has not been distributed or recovered in the current year.

This differs from the amount required by Regulation to be credited to the General Fund though, which requires a reconciling adjustment in the Movement in Reserves Statement which is taken to the Collection Fund Adjustment Account.

Under the legislative framework for the Collection Fund, billing and precepting authorities share proportionately the risks and rewards that the amount of Council Tax collected could be more or less than predicted. For this reason, the Council's Balance Sheet includes:

- An attributable share of debtors for Council Tax arrears (net of any impairment allowance for doubtful debts);
- An attributable share of creditors for overpaid Council Tax; and
- A debtor for the billing authorities, for cash collected from council taxpayers but not paid across, or a creditor for the cash paid in advance of receipt from council taxpayers.
- A Collection Fund Adjustment Account, which records the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by Regulation to be credited to the General Fund.

### 2.8 Employee benefits

#### 2.8.1 Benefits payable during employment

Short-term employee benefits (i.e. those that fall due wholly within 12 months of the year-end) include:

- Salaries and wages;
- Short term compensated absences (including paid annual leave and paid sick pay);
- Performance related bonus payments; and
- Non monetary benefits (e.g. cars).

Short-term employee benefits are recognised as an expense in the year in which employees render service to the Council. This means that:

## Section Two - Notes to the Financial Statements

Short term employee benefits	When recognised
Accumulating absences (e.g. annual leave and flexi-time)	Recognised when employees render services that increase their entitlement to future compensated absences.
Non accumulating absences (e.g. sick leave, maternity / paternity leave and jury service)	Recognised when the absence occurs.
Performance related bonus payments	Recognised when the Council has a constructive obligation to make such payments as a result of past events, and the obligations can be estimated reliably.
Non monetary benefits (e.g. cars)	Recognised according to the same principles as benefits payable in cash.

An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year.

Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Accumulating Compensated Absences Adjustment Account in the Movement in Reserves Statement.

### 2.8.2 Termination benefits

Termination benefits are amounts payable as a result of:

- A decision by the Council to terminate an officer's employment before the normal retirement date; or
- An officer's decision to accept voluntary redundancy.

As termination benefits do not provide the Council with future economic benefits, they are charged on an accruals basis to the Comprehensive Income and Expenditure Statement immediately; that is, when the Council is demonstrably committed to either terminating the employment of an officer, or group of officers, or making an offer to encourage voluntary redundancy.

Where termination benefits involve an enhancement of pensions (usually in the form of added years), the amount recognised in the Surplus or Deficit on the Provision of Services, (which is calculated in accordance with accounting standards), is replaced, by an appropriation in the Movement in Reserves Statement to / from the Pensions Reserve, with the cash paid to the pension fund and pensioners. This adjustment is required by Regulation, to ensure that it is the

## Section Two - Notes to the Financial Statements

---

amount payable by the Council to the Pension Fund or pensioner in the year that is charged to the General Fund.

### 2.8.3 Post employment (retirement) benefits

Employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by the Department for Education.
- The Local Government Pension Scheme (LGPS), administered by the Council.

Both schemes provide defined benefits to members (*including retirement lump sums and pensions based on age, years of service and remuneration earned as employees work for the Council*).

The arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet, and the Children and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' pensions in the year.

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefits scheme. Hence:

- The liabilities of the LGPS attributable to the Council are included in the Balance Sheet on an actuarial basis, using the projected unit method. The projected unit method assesses the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of **4.4%** (2011/12: 4.6%). This discount rate is based upon the indicative rate of return on a high quality corporate bond of equivalent currency and term to the scheme's liabilities.
- The assets of the LGPS attributable to the Council are included in the Balance Sheet at their fair value:
  - **Quoted securities** – current bid price
  - **Unquoted securities** – professional estimate of fair value
  - **Unitised securities** – current bid price
  - **Property** – Market value
- Changes in the net pensions liability are analysed into the following components:
  - **Current service cost** – the increase in liabilities as a result of service earned during the year is charged to the Comprehensive Income and Expenditure Statement (i.e. to the services for which the employees worked).

## Section Two - Notes to the Financial Statements

---

- **Past service cost** - the increase in liabilities arising from a current year decision, whose effect relates to years of service earned in earlier years, is debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- **Gains/losses on settlements and curtailments** - the results of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees are credited or debited to the Surplus/Deficit on the Provision of Services line in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- **Interest cost** - the expected increase in the present value of liabilities during the year, as they move one year closer to being paid, is debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- **Expected return on assets** - the annual investment return on the LGPS's assets attributable to the Council is based on an average of the expected long term return, and is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- **Actuarial gains and losses** - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions, are recognised as Other Comprehensive Income and Expenditure.
- **Contributions paid to the LGPS** – cash paid as employer's contributions to the Pension Fund; these are not accounted for as an expense within the Comprehensive Income and Expenditure Statement.
- The amount chargeable to the General Fund for providing pensions for employees is the amount payable for the year to the LGPS, as determined in accordance with the statutory requirements governing the Scheme. Where this amount does not match the net amount charged to the Surplus or Deficit on the Provision of Services, the difference is taken to the Pensions Reserve. This is achieved by an appropriation, recorded in the Movement in Reserves Statement, from the General Fund Balance to the Pensions Reserve (or vice versa) to remove the notional entries referred to above, and replace them with the amount payable to the Fund for the year. As a consequence of these entries, a negative balance arises on the Pension Reserve. This balance represents the beneficial impact on the General Fund Balance of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

## Section Two - Notes to the Financial Statements

---

### 2.8.4 Discretionary benefits

The Council has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### 2.9 Value added tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

### 2.10 Overheads and support services

The costs of overheads and support services are recharged to those who benefit from the supply or service, in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13 (SeRCOP). The full cost of overhead and support services are shared between services on agreed basis of allocation, with the exception of:

- Corporate and democratic core costs, which relate to the Council's status as a multi-functional, democratic organisation.
- Non distributed costs, which represent the costs of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on assets held for sale.

These two cost categories are accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Cost of Services.

### 2.11 Property, plant and equipment

#### 2.11.1 Asset categories

Assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others or for administration purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### 2.11.2 Recognition of Property, Plant and Equipment

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis in the accounts, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council over a period extending beyond one year, and the cost of the item can be measured reliably.

## Section Two - Notes to the Financial Statements

Expenditure that maintains, but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The Council operates de-minimis limits below which items will usually be charged to revenue rather than to capital on the grounds of materiality. The limits are as follows:

Category	De-minimis limit
General	£10,000
Schools projects	£2,000
Land	Nil
Highways infrastructure	Nil

The Council will capitalise individual items which fall below its de-minimis levels where it considers it appropriate to do so. This is considered on a case by case basis and is usually applied only where the Council makes a significant purchase comprising of a large number of assets which are individually all below the de-minimis level.

Expenditure on furniture and fittings is not capitalised.

The property, plant and equipment assets and long term liabilities of individual foundation, voluntary aided and academy schools are not incorporated into the Council's Balance Sheet.

### 2.11.3 Measurement

Items of Property, Plant and Equipment are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Borrowing costs incurred whilst items of Property, Plant and Equipment are under construction are not capitalised.

## Section Two - Notes to the Financial Statements

Assets are then carried in the Balance Sheet, using one of the following measurement bases:

Asset category	Measurement basis
Land and buildings	<ul style="list-style-type: none"><li>Fair value (<i>this being the amount that would be paid for the asset in its existing use</i>); or</li><li>Depreciated replacement cost, if there is no market based evidence of fair value due to specialist nature of the asset.</li></ul>
Vehicles and equipment	<ul style="list-style-type: none"><li>Depreciated historical cost (<i>as a proxy for fair value</i>).</li></ul>
Infrastructure	<ul style="list-style-type: none"><li>Depreciated historical cost.</li></ul>
Community assets	<ul style="list-style-type: none"><li>Depreciated historical cost.</li></ul>
Assets under construction	<ul style="list-style-type: none"><li>Depreciated historical cost.</li></ul>
Surplus assets not in use but not held for resale	<ul style="list-style-type: none"><li>Fair value based on existing use value.</li></ul>

Assets included in the Balance Sheet at fair value are formally re-valued at least once every five years to ensure that their carrying value is not materially different from their fair value at the year end. Assets not formally re-valued in the year of account are also assessed at year end to determine whether there is any indication that they may be impaired. Where the recoverable amount is estimated to be materially less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where increases in valuations are identified, the gain is accounted for by crediting:

- The Revaluation Reserve to recognise the unrealised gain; or
- The Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, the loss is accounted for by writing the carrying amount of the asset down against:

- Any accumulated gains for the asset in the Revaluation Reserve (i.e. up to the amount of the accumulated gains); or
- The Surplus or Deficit on the Provision of Services where there is no or insufficient balance in the Revaluation Reserve for the asset.

The Revaluation Reserve only contains revaluation gains recognised since 1 April 2007. Gains arising prior to that were consolidated into the Capital Adjustment Account.

## Section Two - Notes to the Financial Statements

### 2.11.4 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets, with the exception of assets without a determinable finite useful life and assets that are not yet available for use, by the allocation of their depreciable amounts over their useful lives.

Asset category	Depreciation bases
Land	Land is not depreciated.
Buildings	<p>Buildings are depreciated, on a straight line basis, over a period commensurate with the useful economic life (UEL) of each asset.</p> <p>Each part of the Council's buildings with a cost that is significant in relation to the total cost of the item is depreciated separately over its UEL. This means that the following components are depreciated separately: the building's structure, its roof, the plant and machinery and the external works.</p> <p>The UEL's for each of these significant components is re-assessed every time the assets are re-valued over the Council's five year rolling re-valuation programme; the UEL's for each of the significant components will not exceed:</p> <ul style="list-style-type: none"> <li>▪ Structure – <b>80</b> years;</li> <li>▪ Roof – <b>25</b> to <b>80</b> years;</li> <li>▪ Plant and machinery – <b>30</b> to <b>40</b> years;</li> <li>▪ External works – <b>30</b> years.</li> </ul>
Community assets	Depreciated over <b>60</b> years, on a straight-line basis.
Vehicles and equipment	Depreciated on a straight-line basis, over an expected lifetime ranging between <b>5</b> and <b>20</b> years.
Roads and other infrastructure	<p>Depreciation on additions to assets since 2008/09 is provided on a straight-line basis over the following useful economic lives:</p> <ul style="list-style-type: none"> <li>▪ Road signage – <b>30</b> years;</li> <li>▪ Roads and highway lighting – <b>40</b> years;</li> <li>▪ Structures (eg: bridges) – <b>120</b> years;</li> <li>▪ Off-highways drainage – <b>100</b> years; and</li> <li>▪ Other infrastructure – between <b>15</b> and <b>20</b> years.</li> </ul> <p>Additions to assets prior to 2008/09 are depreciated over <b>30 – 35</b> years.</p>

## Section Two - Notes to the Financial Statements

Asset category	Depreciation bases
Assets under construction	Assets are re-categorised upon completion, from which point depreciation will be charged in accordance with the policies set out above.

Depreciation charges commence the first full year after assets become operational.

Revaluation gains are also depreciated, with the amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### 2.11.5 Disposals and Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction, rather than through its continuing use, the asset is re-valued immediately and is classified as an Asset Held for Sale. Assets that are to be abandoned or scrapped are not classified as held for sale.

Assets held for sale are carried at the lower of the re-valued amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are only recognised up to the amount of any previously recognised losses within the Comprehensive Income and Expenditure Statement. Depreciation is not charged on assets held for sale.

Once the asset is disposed of:

- The carrying amount of the asset (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.
- Receipts from disposals (if any) are credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.
- Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

In relation to land, all amounts received for disposals are categorised as capital receipts. For all other Property, Plant and Equipment, amounts received for disposals in excess of £10,000 are categorised as capital receipts. These receipts are therefore appropriated to the Capital Receipts Reserve from the General Fund Balance and recorded in the Movement in Reserves Statement. They can then only be applied for new capital investment or to reduce the Council's underlying need to borrow.

## Section Two - Notes to the Financial Statements

The written off value of asset disposals is not a charge against Council Tax, as the cost of property, plant and equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated from the General Fund Balance to the Capital Adjustment Account, and are recorded as such in the Movement in Reserves Statement.

### 2.12 Heritage assets

Heritage assets are those held by the Council principally for their contribution to knowledge or culture.

Where the Council has information on the cost or value of its heritage assets, they are recognised and measured in accordance with the Council's accounting policies on property, plant and equipment (as outlined in note 2.11, which commences on page 33). However, some of the measurement rules are relaxed in relation to heritage assets, as detailed in the following paragraphs.

The categories of heritage asset held, and the measurement and depreciation bases applied, are as follows:

Asset category	Measurement and depreciation bases
Listed and other buildings held for historical interest	<ul style="list-style-type: none"><li>▪ Held at depreciated historical cost.</li><li>▪ Depreciated over <b>60</b> years on a straight line basis.</li></ul>
Archives	<ul style="list-style-type: none"><li>▪ The value of these items is derived from the estimated costs of conservation and repair.</li><li>▪ These assets are not subject to depreciation.</li></ul>
Fine Art	<ul style="list-style-type: none"><li>▪ Where art work has been subject to formal valuation, it is reported in the Balance Sheet at market value. These pieces of art work are not subject to depreciation.</li></ul>

The carrying amount of those heritage assets recognised in the balance sheet are reviewed where there is evidence of impairment. Where there is evidence of impairment, impairment is recognised and measured in accordance with the Council's general policy on impairment (see paragraph 2.11.3).

Where heritage assets are disposed of, the sale proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of non-current assets and in accordance with statutory accounting requirements relating to capital expenditure and capital receipts (see paragraph 2.11.5).

## Section Two - Notes to the Financial Statements

---

Where information on cost or value is not available, and the cost of obtaining the information outweighs the benefit that would be derived from it, the assets are not recognised in the Balance Sheet, but details are disclosed in the notes to the accounts.

### 2.13 Investment properties

Investment properties are those held solely to earn income from rentals and/or for capital appreciation purposes. This definition is not met if the property is used in any capacity to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are initially measured at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arms length. Investment properties are not depreciated but are re-valued annually according to market conditions at the year end.

Gains and losses arising on the revaluation and/or disposal of investment properties are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. In accordance with statutory regulations, these gains and losses are then reversed out of the General Fund Balance, in the Movement in Reserves Statement, to the Capital Adjustment Account and (for any sale proceeds greater than **£10,000**) the Capital Receipts Reserve.

Rentals received in relation to investment properties are credited to the Financing and Investment income line and result in a gain for the General Fund.

### 2.14 Intangible assets

Expenditure on non-monetary assets that do not have physical substance, but are controlled by the Council as a result of past events, is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. Examples include software licences.

Development costs that are directly attributable to the design and testing of internally generated software products are recognised as an intangible asset when the following criteria are met:

- The project is technically feasible and it is intended to complete it; and
- The Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are initially measured at cost. Subsequently, they are only re-valued where the fair value of the assets held by the Council can be determined by reference to an active market.

## Section Two - Notes to the Financial Statements

---

In practice, no intangible asset held by the Council meets this criterion and they are therefore carried at amortised cost.

The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. Impairment losses are also posted to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, the amortisation, impairment losses and disposal gains and losses charged to the Comprehensive Income and Expenditure Statement Account are reversed out of the General Fund Balance in the Movement in Reserves Statement and are posted to the Capital Adjustment Account and, for any sale proceeds greater than **£10,000**, to the Capital Receipts Reserve.

### 2.15 Charges to revenue for non-current assets

All services (including support services and trading activities) are charged with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets held or occupied;
- Revaluation and impairment losses on the assets held or occupied (i.e. where there are no accumulated gains in the Revaluation Reserve against which the losses can be applied), and revaluation gains that reverse a revaluation or impairment loss previously recognised in the Comprehensive Income and Expenditure Statement; and
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make a prudent annual provision to contribute towards the reduction in its overall borrowing requirement; the annual revenue provision is determined in compliance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by a revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### 2.16 Revenue expenditure funded from capital under statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset is charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

## Section Two - Notes to the Financial Statements

Where the Council has determined to meet the cost of this expenditure from existing capital resources, or by borrowing, a transfer is made in the Movement in Reserves Statement to the Capital Adjustment Account to mitigate the impact on the General Fund Balance.

### 2.17 Private Finance Initiative and Public Private Partnership schemes

Private Finance Initiative (PFI) and similar schemes are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. Where the Council is deemed to control the services that are provided under these schemes, and where ownership of the property, plant and equipment passes to the Council at the end of the contracts for no additional charges, the Council carries the assets used under the contracts on its own Balance Sheet as part of Property, Plant and Equipment.

PFI assets are recognised as Property, Plant and Equipment assets when they come into use. The assets are measured at fair value, which is kept up to date in accordance with the Council's approach for each relevant class of asset. A PFI liability is also recognised for amounts due to the scheme operator for the capital investment.

The annual unitary payment to PFI operators is separated into the following component parts, using appropriate estimation techniques where necessary:

Element of charge	Explanation	Accounting treatment
Services received	Services that the operator must provide with the property, plant and equipment.	Charged to relevant service in the Comprehensive Income and Expenditure Statement
Deferred income	Benefits that the Council is deemed to receive through its control of the services to be provided through the use of the property, plant and equipment.	Credited to the relevant service in the Comprehensive Income and Expenditure Statement.
Finance cost	Interest charge on outstanding Balance Sheet liability.	Debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
Contingent rent	Increases in the amount to be paid for the property arising during the contract.	Debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## Section Two - Notes to the Financial Statements

Element of charge	Explanation	Accounting treatment
Payment towards liability	Obligation to pay the operator the value of the fair value of property, plant and equipment.	Applied to write down the Balance Sheet liability towards the PFI operator.
Lifecycle replacement	Comprise the replacement of components of an asset as they wear out.	Posted to the Balance Sheet as a pre-payment and then recognised as an addition to Property, Plant and Equipment when the relevant works are eventually carried out.

Dowry payments, made to the PFI contractors to secure future reduced annual payments over the life of the contracts, are accounted for as pre-payments for services receivable. These pre-payments are treated as an initial payment towards the finance lease liability and are set against the carrying value of the liability.

### 2.18 Schools

A number of balances relating to schools are included within the Council's Statement of Accounts. Which balances are included is dependent on the type of school:

School type	Explanation
<b>Community Schools</b>	These schools are state-funded and run by the Council. The Council employs the staff, owns the land and buildings and decides upon the admissions criteria.
<b>Voluntary Controlled (VC) schools</b>	These schools are state-funded via the Council. A foundation or trust has some formal influence in running the school, including appointing a proportion of the school governors, and usually owns the school land and buildings. The Council employs the school's staff and has primary responsibility for the school's admission arrangements.
<b>Voluntary aided (VA) schools</b>	In these schools all running costs and the majority of building costs are funded by central government via the Council. The remaining building costs are contributed by the religious foundation or trust that owns the school land and buildings. The governing body, comprising a majority of governors appointed by the foundation/trust, employs the school's staff and determines the school's admission arrangements in consultation with the Council.
<b>Foundation schools</b>	These schools are state-funded via the Council. The school land and buildings are usually owned by the school governing body or by a charitable foundation. The foundation will appoint a proportion of

## Section Two - Notes to the Financial Statements

School type	Explanation
	school governors to the governing body, which runs the school, employs the staff and sets the school's admission arrangements in consultation with the Council.
<b>Academy and free schools</b>	These schools are state-funded directly by Central Government and are independently managed. They are set up by sponsors from religious, business or voluntary groups in partnership with the Department for Education

The Council has no involvement with Academy schools and therefore none of these schools' income, expenditure, assets, liabilities or reserves is included within the Council's Statement of Accounts.

For all other schools, the Council recognises:

- their income and expenditure in its Comprehensive Income and Expenditure Statement (within the Children's and Education Services line) in accordance with accounting policy 2.3 on Accruals of income and expenditure;
- any unspent resources held by Schools within an earmarked revenue reserve, in line with the Council's reserves policy;
- their current assets and liabilities within its Balance Sheet, under the appropriate heading and in accordance with the Council's accounting policies specific to that asset / liability.

With regard to property, plant and equipment, the Council does not include schools' property, plant and equipment in its Balance Sheet where it does not own or have significant control (through significant involvement in the running of the school) over the economic benefits of these assets. This means that it only recognises the property, plant and equipment for community and voluntary controlled schools on its Balance Sheet.

Schools created and run under PFI arrangements are included within the Council's accounts in accordance with the above policies.

Further details on Central Government funding received by schools, via the Council, is provided in note 15 on Dedicated Schools Grant, on page 68.

### 2.19 Leases

#### 2.19.1 General

The Council accounts for leases as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or

## Section Two - Notes to the Financial Statements

equipment from the lessor to the lessee (subject to the de-minimis levels outlined below). All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

In line with the Council's capitalisation policy for Property, Plant and Equipment, the Council operates de-minimis limits. Where the fair value of the asset falls below these de-minimis limits, the leases will be classified as operating rather than finance leases. The limits are as follows:

Category	De-minimis limit
General	£10,000
Schools projects	£2,000
Land	Nil
Highways infrastructure	Nil

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy, where fulfilment of the arrangement is dependent on the use of specific assets.

### 2.19.2 Authority as lessee – Finance leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment which is applied to write down the lease liability.
- A finance charge (debited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases are accounted for using the policies applied generally to Property, Plant and Equipment (see Accounting Policy note 2.11), subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the lease does not transfer to the Council at the end of the lease).

## Section Two - Notes to the Financial Statements

---

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual provision is made from revenue towards the deemed capital investment, which is determined in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by this revenue provision in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account; these adjustments are recorded in the Movement in Reserves Statement.

### 2.19.3 Authority as Lessee - Operating leases

Leases that do not meet the definition of finance leases are accounted for as an expense of the service(s) benefiting from the use of the leased property, plant or equipment. Rentals payable are charged to the relevant service revenue account in the Comprehensive Income and Expenditure Statement on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

### 2.19.4 Authority as lessor - Operating leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight line basis over the life of the lease, even if it does not match the pattern of payments. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## 2.20 Interests in companies and other entities

The Council is required to produce Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates and/or joint ventures. The Council has involvement with a number of companies. However, on the grounds of materiality, the Council has concluded that the requirement to produce Group Accounts applies only in relation to its interest in Essex Cares Ltd. In the Council's single entity accounts, the interest in Essex Cares Ltd is recorded at a financial asset at cost.

## 2.21 Jointly controlled operations

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council:

- Recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs; and

## Section Two - Notes to the Financial Statements

---

- Debits and credits the Comprehensive Income and Expenditure Statement with the expenditure and income it incurs and the share of income it earns from the operations.

### 2.22 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable on demand without penalty on the same working day, or with notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

The Council's bank overdraft is integral to the way in which the Council manages its cash and cash equivalents during the year and as a result forms part of 'Cash and Cash Equivalents' on the Balance Sheet. The Council nets its bank overdraft balance from other cash and cash equivalent balances held at the year end.

### 2.23 Financial instruments

#### 2.23.1 Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument. Financial liabilities are initially measured at fair value and are carried at their amortised cost.

Interest is charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the carrying amount of the liabilities, multiplied by the effective rate of interest for the instruments. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowing undertaken by the Council, this means that:

- The amount included in the Balance Sheet is the outstanding principal repayable, plus accrued interest; and
- Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase / settlement. However, where the repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is deducted from or added to the amortised cost of the new or modified loan and the write down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

## Section Two - Notes to the Financial Statements

---

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The gains / losses are spread over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

### 2.23.2 Financial assets

The Council's financial assets (loans and receivables) have fixed or determinable payments but are not quoted in an active market. They are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument and are initially measured at fair value. They are then measured at their amortised cost.

Interest receivable is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, based on the carrying amount of the assets, multiplied by the effective rate of interest for the instruments. For most of the loans that the Council has made, this means that:

- The amount included in the Balance Sheet is the outstanding principal receivable, plus accrued interest; and
- Interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year according to the loan agreement.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### 2.24 Exceptional items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the Accounts, depending on how significant the items are to an understanding of the Council's financial performance.

### 2.25 Events after the Balance Sheet date

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. There are two types of event:

## Section Two - Notes to the Financial Statements

---

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### 2.26 Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments are those made to comparative figures and may arise as a result of a change in accounting policy or to correct a material error. Changes in accounting estimates are accounted for prospectively (i.e. in the current and future years affected by the change).

Changes in accounting policies are only made when required by proper accounting practices or where the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless otherwise stated) by adjusting the opening balances and comparative amounts for the prior period (i.e. as if the new policy had always been applied).

Material errors discovered in relation to figures reported in prior periods are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### 3. Accounting standards that have been issued but not yet adopted

A number of new or amended accounting standards have recently been issued but are not required to be adopted within the 2012/13 Statement of Accounts. The Council has reviewed these standards and will adopt these in 2013/14. Those standards which are considered to have a material impact on the Council's accounts are detailed below:

#### International Accounting Standard (IAS) 19 'Employee Benefits'

This standard has been amended to include two new classes of components in relation to the pension liability within the Balance Sheet.

- **Net interest on the net liability** – this is the change in the net pensions' liability that arises from the passage of time and includes interest income on plan assets as well as interest costs on the pensions' liability. The Council is required to account for this within the 'Surplus / Deficit on the Provision of Services' within the Comprehensive Income and Expenditure Statement. This component will replace the previous component 'Expected Returns on assets in the scheme', which is now effectively accounted for within the component 're-measurements of the net liability'; and

## Section Two - Notes to the Financial Statements

---

- **Re-measurements of the net liability** – this new component includes the return on plan assets, which were previously accounted for within the Surplus / Deficit on the Provision of Services, as well as actuarial gains and losses. It will be included within Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement.

In addition, the amended standard includes new definitions or recognition criteria for service costs and termination benefits:

- **Service costs** – this is a new definition and comprises current service cost, past service cost and any gain or loss on settlement;
- **Termination benefits** – the recognition criteria have been amended so that benefits can only be recognised at the earlier of the date on which the Council can no longer withdraw from the offer of benefits and the date costs are recognised for restructuring and involve the payment of termination benefits.

As a result of these amendments the Council will be required to change its accounting policies from 1 April 2013. This change would have had the following impact on the 2012/13 Statement of Accounts:

- Within the Comprehensive Income and Expenditure Statement, the changes have a net nil overall impact on 'total comprehensive income and expenditure' as:
  - The charge to the 'Surplus / deficit on the Provision of Services' would be **£15.8m** higher as a result of the introduction of the 'net interest on the net liability' component; and
  - Other Comprehensive Income and Expenditure would be **£15.8m** lower as a result of the introduction of the component 're-measurement of the net liability'.
- There is no impact on the Pensions Liability or Pensions Reserve in the Balance Sheet;
- There is no practical impact of the amendment to the recognition criteria for termination benefits; and
- No amounts relating to prior periods are expected to be amended.

### IAS 1 'Presentation of Financial Statements'

From 1 April 2013, revisions made to IAS 1 'Presentation of Financial Statements' are required to be implemented. These changes require the line items within Other Comprehensive Income and Expenditure in the Comprehensive Income and Expenditure Statement to be grouped into amounts which will, once certain conditions have been met, or will not, be reclassified to the Surplus or Deficit on the Provision of Services. This is a presentational change only which will not impact on any of the amounts within the Comprehensive Income and Expenditure Statement.

The Council does not consider that any material amounts included within Other Comprehensive Income and Expenditure will require subsequent reclassification into the Surplus or Deficit on Provision of Services.

## Section Two - Notes to the Financial Statements

---

### 4. Critical judgements in applying accounting policies

In applying the accounting policies set out within Note 2, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide any indication that assets of the Council might be impaired due to the need to reduce service provision.
- The Council is deemed to control the services provided under the Private Finance Initiative (PFI) / Public Private Partnership (PPP) agreements for the A130 road and for the provision of various schools. It is assumed that the Council controls the residual values of the property, plant and machinery, and their facilities, at the end of these agreements. The accounting policies for PFI/PPP schemes and similar contracts have been applied to these arrangements (as per note 2.17). The value of these assets at 31<sup>st</sup> March 2013 is shown in Note 19.2, on page 78.
- CIPFA is currently developing guidance in relation to the recognition of non-current schools' assets to ensure that these are applied on a consistent basis across authorities in accordance with accounting standards. In the meantime, the Council must determine the appropriate accounting treatment for schools non-current assets. The treatment adopted by the Council is detailed within accounting policy note 2.18, as detailed on page 42. Under this policy, the Council accounts for voluntary controlled schools non-current assets within 'Property, Plant and Equipment' on its Balance Sheet. This is on the basis that the Council has significant involvement in running these schools and therefore effectively controls the assets even though the assets are owned by charitable trusts. The value of these schools at 31<sup>st</sup> March 2013 is **£177m** (31<sup>st</sup> March 2012: **£166m**).

### 5. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

## Section Two - Notes to the Financial Statements

The items in the Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred for each asset. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation will increase and the carrying value of assets will decrease.  Details of the carrying values and depreciation are detailed in note 16 ( <i>which commences on page 70</i> ).
Leases	For a number of leases identified by schools and other Council services, the Council has made assumptions about the fair value of the assets. These have been estimated by identifying the current cost of purchasing a similar asset.	Should the current cost estimation differ from the fair value, the classification of the lease as a finance or operating lease may be under or over stated.  Given that the Council does not enter into a significant number of leases that are finance lease in nature, and the total depreciated value of leases as at 31 <sup>st</sup> March 2013 is only <b>£129,000</b> , the effect of the estimation is not material.
Insurance Provision	The estimate of the provision made for insurance claims depends on a number of complex actuarial assumptions and judgements which are used to forecast losses under claims. These include: <ul style="list-style-type: none"> <li>▪ The loss development factors to predict ultimate losses;</li> <li>▪ The dates of historical claims data provided;</li> <li>▪ The basis on which historical years have been re-valued for inflation; and</li> <li>▪ That the profile of the body of claims is consistent.</li> </ul> A firm of consulting actuaries is engaged to provide the Council with expert advice about	At 31 March 2013, the insurance provision amounted to <b>£23.5m</b> . Further details are provided in Note 25 which commences on page 90.

## Section Two - Notes to the Financial Statements

Item	Uncertainties	Effect if actual results differ from assumptions
	<p>the assumptions to be applied.</p> <p>In addition, it is not certain that all valid claims have been received by the Council.</p>	
Landfill aftercare provision	<p>The Council has an on-going obligation to undertake environmental monitoring of its former landfill sites, to ensure they do not bring harm to human health, property or the environment. There is no pre-defined period over which environmental monitoring must be undertaken – the Council will continue to monitor, operate and maintain this pollution control infrastructure until each site becomes inert.</p> <p>The Council has assumed, for the purposes of estimating the present value of expenditure expected to be required to settle the obligation, that:</p> <ul style="list-style-type: none"> <li>Environmental monitoring will continue for a period of <b>100</b> years following the closure of each site; and</li> <li>The Public Works Loans Board (PWLB) ‘annuity’ rates prevailing on 31<sup>st</sup> March 2013 were appropriate rates to discount the liability to its present value.</li> </ul>	<p>The present value of the expenditure expected to be required to settle the obligation is <b>£7.4m</b>. The present value of the obligation would reduce to:</p> <ul style="list-style-type: none"> <li><b>£6.2m</b> if it were assumed that environmental monitoring would be undertaken for a period of <b>60</b> years following site closures.</li> <li><b>£6.0m</b> if the Council used discount rates that were 1% higher to estimate the present value of expenditure expected to be required to settle the obligation over a period of 100 years from the closure of each site.</li> </ul>
Pensions liability	<p>Estimation of the net pension liability to pay pensions depends on a number of complex actuarial assumptions / judgements relating to:</p> <ul style="list-style-type: none"> <li>the discount rate used;</li> <li>salary increases;</li> <li>changes in retirement ages;</li> <li>mortality rates; and</li> <li>expected return on assets.</li> </ul> <p>A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The net pension liability in the accounts amounts to <b>£965.7m</b>. The effect on net pensions’ liability of changes in individual assumptions can be significant. For example:</p> <ul style="list-style-type: none"> <li>An increase of <b>0.1%</b> in the discount rate would decrease the pension liability by <b>£46.991m</b>; and</li> <li>Reducing the mortality age assumption by <b>1 year</b> would decrease the pension liability by <b>£81.614m</b>.</li> </ul>

## Section Two - Notes to the Financial Statements

Item	Uncertainties	Effect if actual results differ from assumptions
Arrears	At 31 March 2013, sundry debtors amounted to <b>£45.6m</b> . A review of significant balances suggested that impairment for doubtful debts of <b>19.4% (£8.8m)</b> was appropriate. It is not certain that such an allowance will be sufficient.	If collection rates deteriorate by <b>1%</b> , an additional <b>£478,000</b> would need to be set aside as an allowance for doubtful debts.

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

### 6. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Executive Director for Finance on **30th September 2013**. Events taking place after this date are not reflected in the financial statements or notes. However, where events taking place before this date provided information about conditions existing at 31st March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31<sup>st</sup> March 2013 as they provide information that is relevant to an understanding of the Council's financial position but do not relate to conditions at that date:

- **Business Rate Refunds – non-adjusting post balance sheet event**

When the new arrangements for the retention of business rates come into effect on 1 April 2013, the Council will assume the liability for refunding business ratepayers who have successfully appealed against the rateable value of their properties on the rating list. Previously, this liability rested with Central Government. Although the refunds relate to 2012/13 and earlier years, the Council has not recognised a provision within its 2012/13 accounts as the liability does not rest with the Council, under legislation, until 1 April 2013. The Council's share of the liability at 1 April 2013 was estimated to be **£2.672m**. When accounted for in 2013/14, it will increase gross expenditure within the Comprehensive Income and Expenditure Account and decrease the Council's net assets and reserves on the Balance Sheet.

### 7. Exceptional items

There are no exceptional items in 2012/13.

During 2011/12, the Council settled pension liabilities in relation to the formation of a number of academy schools. The capitalised gain arising from this settlement amounted to **£72.650m**.

## Section Two - Notes to the Financial Statements

---

### 8. **Adjustments between Accounting Basis and Funding under Regulations**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

## Adjustments between accounting basis and funding under Regulations – 2011/12 (part one)

2011/12	Notes	Usable Reserves					Total Unusable Reserves £000
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	
		£000	£000	£000	£000	£000	
<b>Adjustments involving the Capital Adjustment Account (CAA)</b>	<b>28.3</b>						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>							
Depreciation and impairment of non current assets		-	(160,224)	-	-	(160,224)	160,224
Revaluation losses on property, plant and equipment		-	-	-	-	-	-
Movement in market value of investment properties		-	(89)	-	-	(89)	89
Amortisation of intangible assets		-	(635)	-	-	(635)	635
Capital grants and contributions applied		-	146,326	-	-	146,326	(146,326)
Donated assets		-	16,373	-	-	16,373	(16,373)
Revenue expenditure funded from capital under statute		-	(63,747)	-	-	(63,747)	63,747
Value of assets disposed of during the year		-	(168,849)	-	-	(168,849)	168,849
<u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>							
Statutory provision for the financing of capital investment		-	34,489	-	-	34,489	(34,489)
Capital expenditure charged against the General Fund		-	6,000	-	-	6,000	(6,000)
<b>Adjustments involving the Capital Adjustment Account</b>		<b>-</b>	<b>(190,356)</b>	<b>-</b>	<b>-</b>	<b>(190,356)</b>	<b>190,356</b>
<b>Adjustments involving the Capital Grants Unapplied Account</b>							
Grants applied to financing (transferred to the CAA)		-	-	-	10,388	10,388	(10,388)
Grants and contributions unapplied		-	17,979	-	(17,979)	-	-
<b>Adjustments involving the Capital Grants Unapplied A/C</b>		<b>-</b>	<b>17,979</b>	<b>-</b>	<b>(7,591)</b>	<b>10,388</b>	<b>(10,388)</b>
<b>Adjustments involving the Capital Receipts Reserve</b>							
Sale proceeds (part of gain/loss on disposal)		-	4,330	(4,330)	-	-	-
Transfer from Deferred Capital Receipts Reserve		-	-	(1,000)	-	(1,000)	1,000
Use of reserve to finance new capital expenditure		-	-	23,121	-	23,121	(23,121)
<b>Adjustments involving the Capital Receipts Reserve</b>		<b>-</b>	<b>4,330</b>	<b>17,791</b>	<b>-</b>	<b>22,121</b>	<b>(22,121)</b>

## Adjustments between accounting basis and funding under Regulations – 2011/12 (part two)

2011/12	Notes	Usable Reserves					Total Unusable Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	
		£000	£000	£000	£000	£000	
<b>Adjustments involving the Financial Instruments Adjustment Account (FIAA)</b>	<b>28.4</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements		-	41	-	-	41	(41)
<b>Adjustments involving the FIAA</b>		-	41	-	-	41	(41)
<b>Adjustments involving the Pensions Reserve</b>	<b>28.5</b>						
Reversal of items debited/credited to the CIES		-	(771)	-	-	(771)	771
Employers' pension contributions payable in the year		-	67,374	-	-	67,374	(67,374)
<b>Adjustments involving the Pensions Reserve</b>		-	66,603	-	-	66,603	(66,603)
<b>Adjustments involving the Collection Fund Adjustment Account</b>	<b>28.7</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement differs from council tax income calculated in accordance with statutory requirements		-	(339)	-	-	(339)	339
<b>Adjustments involving the Collection Fund Adj Account</b>		-	(339)	-	-	(339)	339
<b>Adjustments involving the Accumulated Absences Account</b>	<b>28.8</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements		-	6,774	-	-	6,774	(6,774)
<b>Adjustments involving the Accumulated Absences Account</b>		-	6,774	-	-	6,774	(6,774)
<b>Total adjustments</b>		-	(94,968)	17,791	(7,591)	(84,768)	84,768

## Adjustments between accounting basis and funding under Regulations – 2012/13 (part one)

2012/13	Notes	Usable Reserves					Total Unusable Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	
		£000	£000	£000	£000	£000	
<b>Adjustments involving the Capital Adjustment Account (CAA)</b>	<b>28.3</b>						
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</u>							
Depreciation and impairment of non current assets		-	(122,882)	-	-	(122,882)	122,882
Revaluation losses on property, plant and equipment		-	-	-	-	-	-
Movement in market value of investment properties		-	650	-	-	650	(650)
Amortisation of intangible assets		-	(573)	-	-	(573)	573
Capital grants and contributions applied		-	78,606	-	-	78,606	(78,606)
Donated assets		-	480	-	-	480	(480)
Revenue expenditure funded from capital under statute		-	(27,392)	-	-	(27,392)	27,392
Value of assets disposed of during the year		-	(159,074)	-	-	(159,074)	159,074
<u>Insertion of items not debited or credited to the Comprehensive Income and expenditure Statement</u>							
Statutory provision for the financing of capital investment		-	33,715	-	-	33,715	(33,715)
Capital expenditure charged against the General Fund		-	9,759	-	-	9,759	(9,759)
<b>Adjustments involving the Capital Adjustment Account</b>		<b>-</b>	<b>(186,711)</b>	<b>-</b>	<b>-</b>	<b>(186,711)</b>	<b>186,711</b>
<b>Adjustments involving the Capital Grants Unapplied Account</b>							
Grants applied to financing (transferred to the CAA)		-	-	-	18,291	18,291	(18,291)
Grants and contributions unapplied		-	31,000	-	(31,000)	-	-
<b>Adjustments involving the Capital Grants Unapplied A/C</b>		<b>-</b>	<b>31,000</b>	<b>-</b>	<b>(12,709)</b>	<b>18,291</b>	<b>(18,291)</b>
<b>Adjustments involving the Capital Receipts Reserve</b>							
Sale proceeds (part of gain/loss on disposal)		-	10,815	(10,815)	-	-	-
Transfer from Deferred Capital Receipts Reserve		-	-	(2,000)	-	(2,000)	2,000
Use of reserve to finance new capital expenditure		-	-	12,942	-	12,942	(12,942)
<b>Adjustments involving the Capital Receipts Reserve</b>		<b>-</b>	<b>10,815</b>	<b>127</b>	<b>-</b>	<b>10,942</b>	<b>(10,942)</b>

## Adjustments between accounting basis and funding under Regulations – 2012/13 (part two)

2012/13	Notes	Usable Reserves					Total Unusable Reserves
		Earmarked General Reserves	General Fund Balance	Usable Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	
		£000	£000	£000	£000	£000	
<b>Adjustments involving the Financial Instruments Adjustment Account (FIAA)</b>	<b>28.4</b>						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement differ from costs chargeable in accordance with statutory requirements		-	40	-	-	40	(40)
<b>Adjustments involving the FIAA</b>		-	40	-	-	40	(40)
<b>Adjustments involving the Pensions Reserve</b>	<b>28.5</b>						
Reversal of items debited/credited to the CIES		-	(58,358)	-	-	(58,358)	58,358
Employers' pension contributions payable in the year		-	59,843	-	-	59,843	(59,843)
<b>Adjustments involving the Pensions Reserve</b>		-	1,485	-	-	1,485	(1,485)
<b>Adjustments involving the Collection Fund Adjustment Account</b>	<b>28.7</b>						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement differs from council tax income calculated in accordance with statutory requirements		-	3,666	-	-	3,666	(3,666)
<b>Adjustments involving the Collection Fund Adj Account</b>		-	3,666	-	-	3,666	(3,666)
<b>Adjustments involving the Accumulated Compensated Absences Adjustment Account</b>	<b>28.8</b>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement differs from remuneration chargeable in accordance with statutory requirements		-	999	-	-	999	(999)
<b>Adjustments involving the Accumulated Absences Account</b>		-	999	-	-	999	(999)
<b>Total adjustments</b>		-	(138,706)	127	(12,709)	(151,288)	151,288

## Section Two - Notes to the Financial Statements

### 9. Earmarked revenue reserves

The Council maintains a number of earmarked revenue reserves, which are amounts that have been set aside for specific policy purposes, as follows:

Reserves	Purpose and usage	Timescale for usage
<b>Schools</b>	Schools are permitted to retain unspent resources (whether planned or unplanned), which are held in the Schools Reserves. The statutory authority to commit such resources rests with school governors.	No time constraints have been placed upon the usage of this reserve.
<b>Future capital funding</b>	Comprises revenue contributions to be used to supplement the resources available to finance future capital expenditure.	No time constraints have been placed upon the usage of this reserve.
<b>PFI reserves</b>	Equalise the timing differences between expenditure and government grant over the life of the PFI contracts.	To be utilised over the life of the PFI contracts.
<b>Grant equalisation reserve</b>	Equalise the timing differences between the recognition of grant income in the Comprehensive Income and Expenditure Statement (in accordance with Accounting Policy 2.6) and incurring the grant eligible expenditure.	There are no time constraints placed upon the usage of this reserve.
<b>Waste reserve</b>	To smooth the effects of future increases in the costs of waste disposal.	It is anticipated that this reserve will be utilised over a period not extending beyond 2040/41.
<b>Building maintenance</b>	To support the delivery of the annual maintenance programme.	This reserve will be utilised in 2013/14.
<b>Capital receipts pump priming</b>	Used to meet costs associated with bringing properties into readiness for disposal.	There are no time constraints placed upon the usage of this reserve.
<b>Carbon reduction</b>	Used to finance measures aimed at reducing the Council's carbon footprint.	No time constraints have been placed upon the usage of this reserve.
<b>Energy inflation</b>	To ensure there is adequate funding to meet increases in energy prices relating to operational and offices properties.	No time constraints have been placed upon the usage of this reserve.
<b>ESF reserve</b>	To meet costs associated with European Social Fund projects.	Reserve was fully utilised in 2012/13.

## Section Two - Notes to the Financial Statements

Reserves	Purpose and usage	Timescale for usage
<b>Essex Police and Crime</b>	To support the set up costs and subsequent financing of the Essex Crime and Police Panel.	No time constraints have been placed upon the usage of this reserve.
<b>Essex Transport</b>	The revenue reserves of the former Essex Transport trading activity which have been set aside to meet costs arising subsequent to the outsourcing of the service in 2009/10.	No time constraints have been placed upon the usage of this reserve.
<b>Health and safety</b>	Used to meet the costs of undertaking asbestos, legionella and disability discrimination act surveys.	No time constraints have been placed upon the usage of this reserve.
<b>Insurance</b>	Provides for future potential and contingent liabilities for insurance claims.	There are no time constraints placed upon the usage of this reserve.
<b>LAA performance reward</b>	This reserve represents the setting aside of Local Area Agreement performance reward grant to support projects over the medium term.	This reserve will be fully utilised in 2013/14.
<b>Newton bequest</b>	Funds bequeathed to the Council for use by the Essex Records Office.	There are no time constraints placed upon the usage of this reserve.
<b>Partnerships</b>	To retain unspent contributions from partners and apply them in subsequent years.	Usage of these reserves is determined by the partnerships.
<b>Personal care</b>	To provide for the costs of personal care for Adults Social Care.	This reserve was fully utilised in 2012/13.
<b>Procurement</b>	To provide funding for the development of a joint working arrangement with Chelmsford Borough Council.	This reserve will be utilised in 2013/14.
<b>Quadrennial elections</b>	Reserve established to meet costs associated with the Council's quadrennial elections.	There are no time constraints placed upon the usage of this reserve.
<b>Redundancy</b>	Used to meet the cost of redundancies arising from transformation of services.	There are no time constraints placed upon the usage of this reserve.
<b>Severe weather</b>	To mitigate the impact on the Roads and Footways revenue budget of severe weather.	This reserve will be utilised in 2013/14.

## Section Two - Notes to the Financial Statements

Reserves	Purpose and usage	Timescale for usage
<b>Street lighting</b>	Reserve intended to help mitigate the impact on the street lighting budget of future increases in energy prices	This reserve will be utilised in 2013/14.
<b>Tendring PPP</b>	To meet costs associated with the Tendring PPP contract.	It is anticipated that this reserve will be utilised over the remaining life of the Tendring PPP contract.
<b>Trading activities</b>	Surpluses generated by trading activities, to be applied by these activities in subsequent years.	No time constraints have been placed upon the usage of this reserve.
<b>Transformation</b>	Used to meet costs associated with project management and change management aspects of the Council's ambitious programme of transformation.	There are no time constraints placed upon the usage of this reserve.

## Section Two - Notes to the Financial Statements

A summary of the balances on the Earmarked Reserves is set out in the following table.

	Balance 31 March 2012	2012/13 movements			Balance 31 March 2013
		Contributions	Withdrawals	Net Movement (to) / from reserves	
	£000	£000	£000	£000	£000
<b>Schools</b>	<b>(50,320)</b>	<b>(8,548)</b>	<b>6,021</b>	<b>(2,527)</b>	<b>(52,847)</b>
<b>Future capital funding</b>					
General	(3,634)	(18,470)	9,759	(8,711)	(12,345)
Bellhouse landfill site	(61)	-	-	-	(61)
Historic buildings	(120)	120	-	120	-
	<b>(3,815)</b>	<b>(18,350)</b>	<b>9,759</b>	<b>(8,591)</b>	<b>(12,406)</b>
<b>Equalisation reserves</b>					
PFI equalisation reserves					
A130 PFI	(57,399)	(1,072)	634	(438)	(57,837)
Building Schools for the future	(2,185)	(7)	896	889	(1,296)
Clacton secondary schools	(3,824)	(200)	55	(145)	(3,969)
Debden PFI	(4,683)	(386)	251	(135)	(4,818)
Grants equalisation	(10,148)	(2,535)	1,944	(591)	(10,739)
Waste Reserve	(44,054)	(18,141)	392	(17,749)	(61,803)
	<b>(122,293)</b>	<b>(22,341)</b>	<b>4,172</b>	<b>(18,169)</b>	<b>(140,462)</b>
<b>Other reserves</b>					
Building maintenance	(713)	-	-	-	(713)
Capital receipts pump priming	(961)	(1,000)	269	(731)	(1,692)
Carbon reduction	(1,536)	(1,419)	-	(1,419)	(2,955)
Energy inflation	-	(1,200)	-	(1,200)	(1,200)
ESF	(2,804)	-	2,804	2,804	-
Essex Police and Crime	-	(73)	-	(73)	(73)
Essex Transport	(417)	-	45	45	(372)
Health and safety	(969)	-	321	321	(648)
Insurance	(6,883)	(3,860)	-	(3,860)	(10,743)
LAA Performance Reward	(1,833)	-	833	833	(1,000)
Newton bequest	(119)	-	-	-	(119)
Partnerships	(2,066)	(155)	88	(67)	(2,133)
Personal Care reserve	-	(3,483)	3,483	-	-
Procurement	(24)	-	-	-	(24)
Quadrennial elections	(506)	(500)	-	(500)	(1,006)
Redundancy	(3,600)	(7,752)	751	(7,001)	(10,601)
Severe weather	(252)	-	-	-	(252)
Street lighting	(476)	-	-	-	(476)
Tendring PPP	(422)	-	-	-	(422)
Trading activities	(3,381)	(581)	803	222	(3,159)
Transformation	(17,007)	(19,989)	10,409	(9,580)	(26,587)
	<b>(43,969)</b>	<b>(40,012)</b>	<b>19,806</b>	<b>(20,206)</b>	<b>(64,175)</b>
<b>Total</b>	<b>(220,397)</b>	<b>(89,251)</b>	<b>39,758</b>	<b>(49,493)</b>	<b>(269,890)</b>

## Section Two - Notes to the Financial Statements

### 10. Other operating expenditure

Other operating expenditure comprises precepts and levies payable by the Council and gains and losses arising on the disposal of non-current assets.

2011/12 £000		2012/13 £000
	<b>Precepts and levies</b>	
1,574	Lee Valley Regional Park	1,536
1,297	Environment Agency	1,297
387	Kent & Essex Inshore Fisheries & Conservation Authority	381
<u>3,258</u>		<u>3,214</u>
	<b>(Gains)/losses on the disposal of non current assets</b>	
(4,330)	Disposal proceeds	(10,815)
168,849	Carrying value of assets disposed of during the year	159,074
19	Disposal costs	33
<u>164,538</u>		<u>148,292</u>
<u>167,796</u>	<b>Total Other Operating Expenditure</b>	<u>151,506</u>

The gain or loss on disposal of property, plant and equipment is the amount by which the disposal proceeds (net of disposal costs) are more (gain) or less (loss) than the carrying amount of the assets. The disposal costs are the only items that are actually charged against the General Fund Balance in the year.

The carrying value of assets disposed of during the year includes the effect of removing community and voluntary controlled schools from the Council's Balance Sheet that have obtained foundation, voluntary aided or academy status during the financial year.

## Section Two - Notes to the Financial Statements

### 11. Financing and investment income and expenditure

Financing and investment income and expenditure comprises interest payable and similar charges, pensions interest cost and expected return on pension assets, interest and other investment income and expenditure, changes in the fair values of investment properties and the net deficit or surplus achieved by the Council's trading activities.

2011/12		2012/13
£000		£000
	<b>Interest payable and similar charges</b>	
28,345	External interest payable	29,303
(124)	Loan charges grant	(225)
(776)	Contributions by other local authorities towards the repayment of debt	(656)
<u>27,445</u>		<u>28,422</u>
	<b>Interest and investment income</b>	
(2,902)	External interest received	(3,671)
294	Amounts allocated to sums held on deposit	498
<u>(2,608)</u>		<u>(3,173)</u>
	<b>Pensions interest cost and expected return on pension assets</b>	
103,025	Pensions interest	96,330
(84,073)	Expected return on pension assets	(72,609)
<u>18,952</u>		<u>23,721</u>
	<b>Investment properties</b>	
89	Movement in the market value of properties	(650)
(41)	Rental income	(55)
<u>48</u>		<u>(705)</u>
(1,817)	<b>Net surplus on trading activities</b>	(2,437)
(1,000)	<b>Other investment income</b> (Dividends receivable)	-
<u>41,020</u>	<b>Financing and Investment income &amp; expenditure</b>	<u>45,828</u>

### 12. Trading operations

The Council has a number of trading activities that are required to operate in a commercial manner and balance their budget by generating income from other parts of the Council and other organisations.

The net surplus or deficit on these trading activities is brought into account when determining the net operating expenditure of the Council.

## Section Two - Notes to the Financial Statements

The following table provides a summary of the financial results of these trading activities.

	Balance at 1 April	Movements				Balance at 31 March
		Income	Expend- iture	Net (Surplus) / deficit	Approp- riations	
	£000	£000	£000	£000	£000	£000
<b>2011/12</b>						
School improvement and advisory service	(249)	(11,068)	9,956	(1,112)	85	(1,276)
School Support (Finance)	-	(1,446)	1,274	(172)	12	(160)
School staffing insurance scheme	(1,444)	(4,582)	4,478	(104)	-	(1,548)
Smarte East	(43)	(111)	110	(1)	-	(44)
Information Services infrastructure	-	(352)	310	(42)	-	(42)
Legal Services Trading	-	(9,187)	8,955	(232)	75	(157)
Library Services	-	(2,224)	2,070	(154)	-	(154)
	(1,736)	(28,970)	27,153	(1,817)	172	(3,381)
<b>2012/13</b>						
School improvement and advisory service	(1,276)	(10,484)	9,691	(793)	1,321	(748)
School Support (Finance)	(160)	(1,283)	1,053	(230)	56	(334)
School staffing insurance scheme	(1,548)	(4,688)	4,782	94	-	(1,454)
Smarte East	(44)	(164)	116	(48)	-	(92)
Information Services infrastructure	(42)	(7,719)	7,746	27	-	(15)
Legal Services	(157)	(9,022)	7,781	(1,241)	882	(516)
Library Services	(154)	(2,363)	2,117	(246)	400	-
	(3,381)	(35,723)	33,286	(2,437)	2,659	(3,159)

The nature and purpose of each of these trading activities is as follows:

Trading activity	Purpose
▪ School improvement and advisory service	Delivers advisory and inspection, governor, music and library services to schools.
▪ School support (finance)	Delivers financial management support to schools.
▪ School staffing insurance scheme	A self-insurance scheme for schools, supporting sickness and relocation expenses.
▪ Smarte East	Procures framework arrangements for construction projects.
▪ Information Services infrastructure	Monitors the decommissioning and refresh of IT equipment within the County Council.
▪ Legal Services	Provides legal services to a wide range of public sector organisations.

## Section Two - Notes to the Financial Statements

Trading activity	Purpose
<ul style="list-style-type: none"> <li>Library Services</li> </ul>	<p>Delivers a library service on behalf of Slough Borough Council.</p> <p>The County Council has established a company (Library Services (Slough) Ltd), through which the library service is delivered to Slough Borough Council; all costs incurred by Library Services (Slough) Ltd are reimbursed by the County Council.</p> <p>All direct, service management and support service costs incurred by the County Council in relation to the delivery of a library service to Slough Borough Council are included within the Library Services trading account, together with the income received under contract from the Borough Council.</p>

### 13. Taxation and non-specific grant income

This comprises council tax income, national non-domestic rates distribution, non ringfenced government grants and all capital grants and contributions.

2011/12 £000		2012/13 £000
<b>Taxation</b>		
(580,193)	Council tax income	(585,144)
(216,724)	Non domestic rates	(269,574)
<u>(796,917)</u>		<u>(854,718)</u>
<b>Non specific grant income</b>		
(147,466)	Non ringfenced government grants	(94,304)
(111,696)	Capital grants and contributions	(86,827)
<u>(259,162)</u>		<u>(181,131)</u>
<u>(1,056,079)</u>	<b>Taxation and non specific grant income</b>	<u>(1,035,849)</u>

## Section Two - Notes to the Financial Statements

### 14. Grant income

#### 14.1 Amounts credited to Taxation and Non Specific Grant income

The following non-specific revenue grants, and capital grants and contributions, have been credited to Taxation and Non-Specific Grant income:

2011/12 £000		2012/13 £000
<b>Non ring-fenced grants</b>		
66,990	Revenue Support Grant	5,226
44,904	Early Intervention Grant	49,040
16,949	Private Finance Initiative Grant	20,028
14,467	Council Tax Grant	14,540
3,146	Local Services Support Grant	3,369
1,010	New Homes Bonus Grant	2,101
<u>147,466</u>		<u>94,304</u>
<b>Capital grants and contributions</b>		
	Department of Transport grants	
26,027	A13 / A130 Sadlers Farm junction	6,249
20,728	Direct funding	11,747
8,869	Integrated transport grant	8,366
234	Other	40
382	Communities and Local Government grants	-
	Department of Education	
45,779	Standards Fund	43,826
896	Other	8,406
8,781	Other grants and contributions	8,193
<u>111,696</u>		<u>86,827</u>
<u>259,162</u>		<u>181,131</u>

## Section Two - Notes to the Financial Statements

### 14.2 Amounts credited to Services

An analysis of the specific revenue and capital grants that have been credited to the Net Cost of Services within the Comprehensive Income and Expenditure Statement is as follows:

2011/12			2012/13		
Capital grants	Specific revenue grants	Total	Capital grants	Specific revenue grants	Total
£000	£000	£000	£000	£000	£000
<b>Department for Education</b>					
-	744,709	744,709	-	640,944	640,944
48,450	16,047	64,497	6,164	-	6,164
-	9,461	9,461	-	16,438	16,438
-	5,760	5,760	5,992	1,614	7,606
-	2,027	2,027	635	1,068	1,703
48,450	778,004	826,454	12,791	660,064	672,855
<b>Department of Health</b>					
-	44,253	44,253	-	45,415	45,415
-	18,575	18,575	-	23,145	23,145
-	141	141	-	3,319	3,319
-	62,969	62,969	-	71,879	71,879
<b>Skills Funding Agency</b>					
-	29,534	29,534	-	-	-
-	9,374	9,374	-	9,504	9,504
-	37	37	-	343	343
-	38,945	38,945	-	9,847	9,847
<b>Grants awarded by other bodies</b>					
-	516	516	-	11,947	11,947
-	3,212	3,212	-	528	528
-	3,746	3,746	-	3,143	3,143
-	2,090	2,090	-	2,027	2,027
-	1,641	1,641	-	1,552	1,552
-	178	178	-	2,367	2,367
-	2,314	2,314	-	-	-
-	689	689	-	668	668
304	6,101	6,405	8,092	591	8,683
1,764	-	1,764	-	-	-
-	47	47	-	744	744
11	721	732	-	1,912	1,912
2,079	21,255	23,334	8,092	25,479	33,571
50,529	901,173	951,702	20,883	767,269	788,152

Note:

Prior year comparatives are consistent with the figures presented in the 2011/12 Statement of Accounts, but some grants have been grouped together where the amounts are minor and no similar amounts have been received in 2012/13.

### 15. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by a grant awarded by the Department for Education, the Dedicated Schools Grant (DSG). An element of the DSG is recouped by the Department to fund academy schools in the Council's area.

## Section Two - Notes to the Financial Statements

DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2012/13 are provided in the following table.

2011/12	Notes	2012/13 Total	Deployment in 2012/13	
			Central Expenditure	Individual Schools Budget
£000		£000	£000	£000
(752,597)	(i)	(939,748)		
-	(ii)	300,325		
(752,597)	(iii)	(639,423)		
1,050	(iv)	(7,366)		
(751,547)	(v)	(646,789)	(94,759)	(552,030)
-	(vi)	-	5,551	(5,551)
(751,547)	(vii)	(646,789)	(89,208)	(557,581)
744,485	(viii)	640,944	83,363	557,581
(304)	(ix)	-	-	-
(7,366)	(x)	(5,845)	(5,845)	-

### Notes:

- (i) DSG figure announced by the Department for Education (DfE) in June 2012.
- (ii) Amount recouped from the Council by the DfE for the conversion of maintained schools into Academies.
- (iii) Total figure after DfE Academy recoupment.
- (iv) Figure brought forward from the previous year, as agreed with the DfE.
- (v) Budgeted distribution of DSG, adjusted for carry forwards and a breach in the central expenditure limit, as agreed with the Schools Forum.
- (vi) Changes to the initial distribution of contingencies as a result of one-to-one tuition and a significant increase in pupil numbers.
- (vii) Budgeted distribution of DSG as at the end of the financial year.
- (viii) Actual amount of central expenditure items and amount of Individual Schools Budget actually distributed to schools.
- (ix) Any contribution from the Council which has the effect of substituting for DSG in funding the Schools Budget.
- (x) Carry forward to next year for as a consequence of an under spend in-year.

## 16. Property, Plant and Equipment, other non-current assets and Assets Held for Sale

### 16.1 Movement in balances – 2011/12

	Property, plant and equipment							Intangible Assets	Investment Property	Heritage Assets	Assets held for sale
	Land and buildings	Vehicles and equipment	Infra-structure Assets	Community Assets	Assets under construction	Surplus Assets	Total PPE				
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Gross Book Value</b>											
As at 1 April 2011	1,832,187	19,905	777,942	2,717	109,160	6,056	2,747,967	3,362	3,920	14,327	3,373
Additions	38,374	1,408	1	-	129,782	-	169,565	2	-	-	-
Revaluation increases / (decreases) recognised in:											
Revaluation Reserve	116,386	(8,703)	-	302	-	22	108,007	-	-	-	-
Surplus/Deficit on the provision of services	(124,357)	12,735	-	8	-	(66)	(111,680)	-	(89)	-	-
Disposals	(165,671)	(4,068)	-	-	-	(379)	(170,118)	(6)	-	-	(1,827)
Reclassification of assets to / (from) other categories	(49,210)	46,835	-	302	-	(709)	(2,782)	-	-	-	2,782
Transfers to / (from) assets under construction	45,622	2,253	61,293	49	(110,349)	-	(1,132)	1,132	-	-	-
<b>As at 31 March 2012</b>	<b>1,693,331</b>	<b>70,365</b>	<b>839,236</b>	<b>3,378</b>	<b>128,593</b>	<b>4,924</b>	<b>2,739,827</b>	<b>4,490</b>	<b>3,831</b>	<b>14,327</b>	<b>4,328</b>
<b>Depreciation / Amortisation</b>											
As at 1 April 2011	(2,403)	(11,422)	(166,620)	(39)	-	(560)	(181,044)	(2,036)	-	(13)	-
Revaluations and restatements	532	(1)	-	8	-	-	539	-	-	-	-
Depreciation / amortisation on impairments	2,139	-	-	(8)	-	-	2,131	-	-	-	-
Depreciation / amortisation for the year	(22,386)	(5,826)	(22,403)	(25)	-	(30)	(50,670)	(638)	-	(2)	-
Depreciation / amortisation on assets sold	937	1,657	-	-	-	504	3,098	3	-	-	-
<b>As at 31 March 2012</b>	<b>(21,181)</b>	<b>(15,592)</b>	<b>(189,023)</b>	<b>(64)</b>	<b>-</b>	<b>(86)</b>	<b>(225,946)</b>	<b>(2,671)</b>	<b>-</b>	<b>(15)</b>	<b>-</b>
<b>Net book value at 31 March 2011</b>	<b>1,829,784</b>	<b>8,483</b>	<b>611,322</b>	<b>2,678</b>	<b>109,160</b>	<b>5,496</b>	<b>2,566,923</b>	<b>1,326</b>	<b>3,920</b>	<b>14,314</b>	<b>3,373</b>
<b>Net book value at 31 March 2012</b>	<b>1,672,150</b>	<b>54,773</b>	<b>650,213</b>	<b>3,314</b>	<b>128,593</b>	<b>4,838</b>	<b>2,513,881</b>	<b>1,819</b>	<b>3,831</b>	<b>14,312</b>	<b>4,328</b>

## 16.2 Movement in balances – 2012/13

	Property, plant and equipment						Total PPE	Intangible Assets	Investment Property	Heritage Assets	Assets held for sale
	Land and buildings	Vehicles and equipment	Infra- structure Assets	Community Assets	Assets under construction	Surplus Assets					
	£000	£000	£000	£000	£000	£000					
<b>Gross Book Value</b>											
As at 1 April 2012	1,693,331	70,365	839,236	3,378	128,593	4,924	2,739,827	4,490	3,831	14,327	4,328
Additions	10,866	322	24	250	88,487	83	100,032	10	-	-	-
Revaluation increases / (decreases) recognised in:											
Revaluation Reserve	136,860	4,575	-	47	-	667	142,149	-	-	53	-
Surplus/Deficit on the provision of services	(69,104)	(1,155)	-	-	-	(277)	(70,536)	-	650	-	-
Disposals	(153,114)	(6,692)	-	-	-	(100)	(159,906)	(17)	-	(34)	(2,653)
Reclassification of assets to / (from) other categories	(39,426)	20,475	9	(590)	-	11,986	(7,546)	-	890	13	6,643
Transfers to / (from) assets under construction	33,079	759	42,107	-	(75,945)	-	-	-	-	-	-
<b>As at 31 March 2013</b>	<b>1,612,492</b>	<b>88,649</b>	<b>881,376</b>	<b>3,085</b>	<b>141,135</b>	<b>17,283</b>	<b>2,744,020</b>	<b>4,483</b>	<b>5,371</b>	<b>14,359</b>	<b>8,318</b>
<b>Depreciation / Amortisation</b>											
As at 1 April 2012	(21,181)	(15,592)	(189,023)	(64)	-	(86)	(225,946)	(2,671)	-	(15)	-
Revaluations and restatements	36,952	218	-	-	-	12	37,182	-	-	-	-
Depreciation / amortisation on impairments	1,769	485	-	-	-	-	2,254	-	-	-	-
Depreciation / amortisation for the year	(23,566)	(6,652)	(24,396)	(15)	-	48	(54,581)	(589)	-	(4)	-
Depreciation / amortisation on assets sold	2,384	1,032	-	-	-	-	3,416	16	-	-	-
<b>As at 31 March 2013</b>	<b>(3,642)</b>	<b>(20,509)</b>	<b>(213,419)</b>	<b>(79)</b>	<b>-</b>	<b>(26)</b>	<b>(237,675)</b>	<b>(3,244)</b>	<b>-</b>	<b>(19)</b>	<b>-</b>
<b>Net book value at 31 March 2012</b>	<b>1,672,150</b>	<b>54,773</b>	<b>650,213</b>	<b>3,314</b>	<b>128,593</b>	<b>4,838</b>	<b>2,513,881</b>	<b>1,819</b>	<b>3,831</b>	<b>14,312</b>	<b>4,328</b>
<b>Net book value at 31 March 2013</b>	<b>1,608,850</b>	<b>68,140</b>	<b>667,957</b>	<b>3,006</b>	<b>141,135</b>	<b>17,257</b>	<b>2,506,345</b>	<b>1,239</b>	<b>5,371</b>	<b>14,340</b>	<b>8,318</b>

## Section Two - Notes to the Financial Statements

### 16.3 Capital commitments

At 31st March 2013, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2013/14. The commitments are summarised as follows:

2012 £000		2013 £000
39,824	Highways and Transportation	16,470
6,750	Education (schools)	6,104
1,716	Other	4,917
<u>48,290</u>		<u>27,491</u>

### 16.4 Revaluations

The Council ensures that all property, plant and equipment required to be measured at fair value is re-valued, under a rolling five year programme, by the Council's property advisor Lambert Smith Hampton. All valuations are undertaken in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors (RICS).

The timing and amounts of the valuations of each class of asset are summarised in the following table:

	Held at historical value £000	Valued at Fair Value as at					Total cost or valuation £000
		31 March 2009 £000	31 March 2010 £000	31 March 2011 £000	31 March 2012 £000	31 March 2013 £000	
<b>Operational Assets</b>							
Land and buildings	-	235,838	138,727	319,050	302,544	616,333	1,612,492
Vehicles, plant & equipment	88,649	-	-	-	-	-	88,649
Infrastructure	881,376	-	-	-	-	-	881,376
Community Assets	3,085	-	-	-	-	-	3,085
<b>Non-Operational Assets</b>							
Surplus Assets	-	722	694	5,206	415	10,246	17,283
Assets under construction	141,135	-	-	-	-	-	141,135
<b>Gross book value</b>	<u>1,114,245</u>	<u>236,560</u>	<u>139,421</u>	<u>324,256</u>	<u>302,959</u>	<u>626,579</u>	<u>2,744,020</u>

## Section Two - Notes to the Financial Statements

### 17. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance lease and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase to the Capital Financing Requirement, a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The Capital Financing Requirement is analysed in the second part of this note.

2011/12 £000		2012/13 £000      £000	
862,900	Opening Capital Financing Requirement		861,209
	<b>Capital investment</b>		
153,191	Property, plant and equipment	99,391	
2	Intangible assets	10	
63,747	Revenue expenditure funded from capital under statute	27,392	
1,693	Other	-	
<b>218,633</b>	<b>Total capital investment</b>	<b>126,793</b>	
	<b>Sources of finance</b>		
(23,121)	Capital receipts	(12,942)	
(156,714)	Government grants & contributions	(96,897)	
(6,000)	Earmarked revenue reserves applied	(9,759)	
(34,489)	Revenue provision for the repayment of debt	(33,715)	
<b>(220,324)</b>	<b>Total sources of finance</b>	<b>(153,313)</b>	
(1,691)	Decrease in the Capital Financing Requirement		(26,520)
<b>861,209</b>	<b>Closing Capital Financing Requirement</b>		<b>834,689</b>
	<b>Explanation of movements in year</b>		
(24,088)	Decrease in underlying need to borrow		(26,416)
22,280	Assets acquired under PFI contracts		-
117	Increase / (decrease) for assets acquired under finance lease		(104)
<b>(1,691)</b>	<b>Increase / (decrease) in the Capital Financing Requirement</b>		<b>(26,520)</b>

## Section Two - Notes to the Financial Statements

### 18. Leases

#### 18.1 Council as Lessee – Finance leases

The following table summarises the Council's finance lease obligations:

31st March 2012			31st March 2013		
Short Term	Long Term		Short Term	Long Term	
£000	£000		£000	£000	
<b>Leases</b>					
-	885	Property	-	861	
-	233	Vehicles, plant and equipment	-	129	
3,112	134,963	Private Finance Initiatives	3,275	131,688	
3,112	136,081		3,275	132,678	

Further detail on the liabilities related to Private Finance Initiative schemes is provided in Note 19, which commences on page 75.

#### 18.2 Council as Lessee – Operating leases

The Council has acquired the use of property, plant and equipment by entering into operating leases. The future minimum lease payments due as at the year-end under non-cancellable leases in future years are:

31 March 2012			31 March 2013		
Property (Restated)	Other	Total	Property	Other	Total
£000	£000	£000	£000	£000	£000
5,265	4,746	10,011	5,135	4,495	9,630
18,451	6,184	24,635	17,897	4,891	22,788
204,357	149	204,506	210,667	96	210,763
228,073	11,079	239,152	233,699	9,482	243,181
<b>Total lease rentals</b>					

## Section Two - Notes to the Financial Statements

### 19. Private Finance Initiative and similar contracts

#### 19.1 Nature and significant terms of PFI arrangements

The Council has entered into several Private Finance Initiative (PFI) and Public Private Partnership (PPP) schemes, as detailed within accounting policy note 2.17, which commences on page 41. The nature and significant terms of these arrangements are as follows:

Scheme	Nature and significant terms
<b>A130 Bypass</b>	<p>This contract was entered into in October 1999 for the design, construction and maintenance of the A130 Bypass and associated off-site facilities.</p> <p>Construction was completed in two phases; the Northern section was completed in 2002 and the Southern section in 2003. No payments were made until the road was constructed. Construction costs were estimated at <b>£80m</b> (including construction and land costs, but excluding maintenance costs).</p> <p>Payments are made to the Contractor for the provision of the road surface, and are based upon the availability and usage of the road. Deductions can be made if the road is closed or traffic flow is affected by road works.</p> <p>The road will be passed to Council in a repaired/neutral state at the end of the arrangements in 2030.</p>
<b>Debden Park School</b>	<p>Under this arrangement, the Operator was firstly responsible for construction of the school and subsequently for the running of the School. Initial construction costs were in the region of <b>£15m</b>.</p> <p>The operator is operating and maintaining the school facilities for a contract term of 25 years (i.e. until 2026).</p> <p>The amounts paid to the Operator vary according to inflation, the proportion of time that the facilities are made available to the Council and according to the achievement of performance goals.</p> <p>The Operator refinanced its debt in December 2001.</p>
<b>Clacton Secondary Schools</b>	<p>This PFI contract was entered into in 2003/04 for the construction of a new secondary school and the expansion and refurbishment of a further two secondary schools, all within the Clacton area. Total construction costs were in the region of <b>£34m</b>.</p> <p>The contract also provides for a full facilities management service for all sites for the contract term of 30 years (i.e. from 2005 until 2035).</p> <p>In return for these services, the Operator is paid an annual unitary charge,</p>

## Section Two - Notes to the Financial Statements

Scheme	Nature and significant terms
	<p>whose amounts vary according to inflation, the proportion of the time that the facilities are made available to the Council, and the extent to which the Operator meets agreed performance goals.</p>
<p><b>Tendring Primary Schools</b></p>	<p>This contract was entered into in October 2001 for the provision and refurbishment of 12 primary schools within the Tendring area. Total construction costs were in the region of <b>£15m</b>.</p> <p>The Operator is operating and maintaining the school facilities for the contract term of 32 years (i.e. until 2033).</p> <p>The unitary charges paid to the Operator each year vary according to inflation, the proportion of the required time that the facilities are available to the Council and the extent to which performance goals are met.</p> <p>The operator re-financed its debt with an effective date of 31st March 2008.</p>
<p><b>Castleview, Cornelius Vermuyden and Columbus schools</b></p>	<p>This contract was entered into in April 2010 for the provision of three schools under one project agreement, with one unitary payment. The contract includes buildings and grounds maintenance, security, caretaking and cleaning. The operational term for the PFI contract, which commenced in January 2012, is 25 years.</p> <p>Two of the schools included within this PFI scheme (i.e. Castleview School and Cornelius Vermuyden School and Arts College) are foundation schools. These schools' governing bodies consented to the Council acting on their behalf, and they accept the arrangements included within the PFI project agreement. Payment arrangements between the Council and these schools reflect those agreed in the project agreement. Upon expiry of the contract, any property interests in respect of these two schools will revert to the schools' governing bodies. This means that control over the services provided and the residual values of these two schools remains with the governing bodies. As a consequence, the Council:</p> <ul style="list-style-type: none"> <li>▪ Recognises the costs arising under this PFI contract in the Comprehensive Income and Expenditure Statement as they arise, together with any contributions received from the schools; and</li> <li>▪ Does not recognise the assets or associated liabilities in respect of these schools within its own Balance Sheet.</li> </ul> <p>The third school included within this scheme (the Columbus New Model Special School) was a community school at financial close of the contract. In this instance, the Council has control over the services provided, and over the residual value of the school.</p>

## Section Two - Notes to the Financial Statements

Scheme	Nature and significant terms
	<p>This means that:</p> <ul style="list-style-type: none"> <li>▪ The Council carries the assets and associated liability in respect of this school on its own Balance Sheet; and</li> <li>▪ Accounts for payments for services provided in accordance with accounting policy 2.17.</li> <li>▪ Construction costs of this school amounted to <b>£22.3m</b>.</li> </ul>
<b>Woodlands School</b>	<p>The contract includes buildings and grounds maintenance, security, caretaking and cleaning. The operational term for the PFI contract is 23 years (excluding the construction period). Upon expiry of the contract, it is intended that any property interest will revert back to the Council for nil consideration. The Council's obligations to pay for the fair value of property, plant and equipment under this project agreement are estimated at <b>£26m</b>. Unitary payments, which include payment for services provided, financing charges and repayment of this liability, will be in the region of <b>£4m</b> per annum.</p>
<b>Waste Treatment Plant - Basildon</b>	<p>This contract was entered into in May 2012 and provides for the design, construction and operation of a waste treatment plant in Basildon.</p> <p>Construction environmental planning and permitting application work commenced in June 2012. Work on the physical construction commenced in February 2013 and is due to be completed in June 2014. A period of commissioning will then follow, before the plant is fully operational in June 2015. The operational term for the PFI contract is 25 years (excluding the construction period).</p> <p>Construction costs are estimated at <b>£107m</b>. Unitary payments, which include payment for services provided, financing charges and repayment of this liability, will be in the region of <b>£22m</b> per annum.</p> <p>Upon expiry of the contract, it is intended that any property interest will revert back to the Council for nil consideration.</p>

## Section Two - Notes to the Financial Statements

### 19.2 Property, plant and equipment

The assets recognised on the Council's Balance Sheet that are used to provide services in respect of the above schemes are as follows:

31st March 2012 £000		31st March 2013 £000
<b>Gross Book Value</b>		
116,921	As at 1 April	139,201
22,280	Additions	-
Revaluation increases / (decreases) recognised in:		
-	Revaluation Reserve	2,639
-	Surplus/Deficit on the provision of services	(909)
-	Disposals	(22,280)
139,201	<b>As at 31 March</b>	118,651
<b>Depreciation / Amortisation</b>		
(18,998)	As at 1 April	(21,484)
-	Revaluations and restatements	1,008
-	Depreciation / amortisation on impairments	8
(2,486)	Depreciation / amortisation for the year	(2,078)
-	Depreciation / amortisation on assets sold	37
(21,484)	<b>As at 31 March</b>	(22,509)
97,923	<b>Net book value at 1 April</b>	117,717
117,717	<b>Net book value at 31 March</b>	96,142

### 19.3 Details of payments to be made under PFI contracts

The Council makes agreed payments under the schemes detailed in note 19.1 each year, which are increased by inflation, and can be reduced if the contractor fails to meet availability and performance standards, but which are otherwise fixed.

## Section Two - Notes to the Financial Statements

Payments remaining to be made under each operational PFI contract (*excluding any estimation of inflation and availability / performance deductions*) are as follows:

	Estimated timing of payments to PFI/PPP operators						Total
	Within one year	2 - 5 years	6 - 10 years	11 - 15 years	16 - 20 years	21 - 25 years	
	£000	£000	£000	£000	£000	£000	
<b>A130 Bypass</b>							
Service charges	1,177	5,011	7,002	7,922	3,453	-	24,565
Interest and similar charges	9,617	39,211	55,620	31,582	611	-	136,641
Repayment of liability	1,929	10,956	31,556	28,088	893	-	73,422
Lifecycle replacement	-	2,751	2,324	983	6,903	-	12,961
<b>Total</b>	12,723	57,929	96,502	68,575	11,860	-	247,589
<b>Debden Park School</b>							
Service charges	563	2,394	3,347	2,548	-	-	8,852
Interest and similar charges	1,230	4,814	5,882	3,911	-	-	15,837
Repayment of liability	484	1,971	3,592	3,532	-	-	9,579
Lifecycle replacement	243	1,545	2,164	1,419	-	-	5,371
<b>Total</b>	2,520	10,724	14,985	11,410	-	-	39,639
<b>Clacton Secondary Schools</b>							
Service charges	2,231	9,632	13,821	16,115	18,672	10,394	70,865
Interest and similar charges	1,846	6,468	6,275	4,488	3,275	1,252	23,604
Repayment of liability	867	3,045	3,047	3,265	5,045	4,247	19,516
Lifecycle replacement	648	3,499	5,803	5,802	3,833	553	20,138
<b>Total</b>	5,592	22,644	28,946	29,670	30,825	16,446	134,123
<b>Tendring Primary Schools</b>							
Service charges	725	3,087	4,314	4,881	5,522	630	19,159
Interest and similar charges	1,656	7,074	9,382	9,888	9,359	701	38,060
Repayment of liability	-	674	1,329	2,476	5,143	543	10,165
Lifecycle replacement	595	1,799	2,638	2,741	2,585	706	11,064
<b>Total</b>	2,976	12,634	17,663	19,986	22,609	2,580	78,448
<b>Building schools for the future (Columbus Special School)</b>							
Service charges	716	2,939	3,976	4,457	5,042	4,145	21,275
Interest and similar charges	2,573	8,751	9,442	7,865	5,246	1,899	35,776
Repayment of liability	-	1,088	2,991	4,449	6,357	7,395	22,280
Lifecycle replacement	12	228	780	1,188	2,181	1,328	5,717
<b>Total</b>	3,301	13,006	17,189	17,959	18,826	14,767	85,048
	27,112	116,937	175,285	147,600	84,120	33,793	584,847

Under existing legislation, the Council expects to continue to receive additional government grant that will broadly cover the capital elements of the payments to contractors.

## Section Two - Notes to the Financial Statements

### 19.4 Value of liabilities resulting from PFI

The payments made under the schemes detailed in note 19.1 are calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable. The liability outstanding to pay the contractor for capital expenditure incurred is as follows:

	1 April 2011 £000	Repaid £000	Arising £000	31 March 2012 £000	Repaid £000	Arising £000	31 March 2013 £000
A130 Road	(76,619)	1,495	-	(75,124)	1,702	-	(73,422)
Debden Park school	(10,388)	375	-	(10,013)	434	-	(9,579)
Clacton secondary schools	(21,255)	885	-	(20,370)	854	-	(19,516)
Tendring primary schools	(10,532)	244	-	(10,288)	123	-	(10,165)
Columbus Special School	-	-	(22,280)	(22,280)	-	-	(22,280)
<b>Total</b>	<b>(118,794)</b>	<b>2,999</b>	<b>(22,280)</b>	<b>(138,075)</b>	<b>3,113</b>	<b>-</b>	<b>(134,962)</b>

## 20. Financial instruments

### 20.1 Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

31 March 2012				31 March 2013		
Long term £000	Short term £000	Total £000		Long term £000	Short term £000	Total £000
			<b>Financial assets - Loans and receivables</b>			
1,693	18,665	20,358	Investments	4,638	184,837	189,475
-	151,893	151,893	Cash and cash equivalents	-	71,654	71,654
24,342	80,899	105,241	Debtors (contractual)	20,885	82,036	102,921
26,035	251,457	277,492	<b>Total</b>	25,523	338,527	364,050
			<b>Financial liabilities at amortised cost</b>			
-	(232,333)	(232,333)	Creditors (contractual)	(222)	(214,894)	(215,116)
(360,449)	(8,587)	(369,036)	Borrowing	(342,261)	(23,788)	(366,049)
(136,081)	(3,112)	(139,193)	PFI / Finance lease liabilities	(132,678)	(3,275)	(135,953)
(496,530)	(244,032)	(740,562)	<b>Total</b>	(475,161)	(241,957)	(717,118)

*Note:*

*Not all short term debtors and creditors are classified as financial instruments, which is why the totals in the above table differ from the values in the Balance Sheet. Only those debtors and creditors which arise from contracts are financial instruments. Those debtors and creditors related to statutory debts such as council tax and non-domestic rates are not classified as financial instruments.*

## Section Two - Notes to the Financial Statements

### 20.2 Income, expense, gains and losses

The following table provides an analysis of the items included within the Comprehensive Income and Expenditure Statement in relation to income, expense and gains and losses on financial instruments:

2011/12				2012/13		
Loans and receivables	Financial liabilities	Total		Loans and receivables	Financial liabilities	Total
£000	£000	£000		£000	£000	£000
-	27,424	27,424	Interest expense	-	28,405	28,405
-	21	21	Fee expense	-	17	17
-	27,445	27,445	Expenses	-	28,422	28,422
(2,902)	-	(2,902)	Interest income	(3,671)	-	(3,671)
(2,902)	-	(2,902)	Income	(3,671)	-	(3,671)
(2,902)	27,445	24,543	Net (gain) / loss for the year	(3,671)	28,422	24,751

### 20.3 Fair values of assets and liabilities

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair values can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments using the following assumptions:

- The fair value of borrowing from the PWLB has been determined with reference to the 'premature repayment' set of PWLB rates in force at 31 March 2013. This demonstrates how much it would cost the Council to buy itself out of an unfavourable position or how much it could generate from liquidating a favourable position.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade creditors and debtors is taken to be the invoiced or billed amount.

In some cases, there is no difference between the carrying value and fair value of financial instruments.

## Section Two - Notes to the Financial Statements

The following table compares the carrying and fair value of the financial instruments held:

31 March 2012			31 March 2013		
Carrying amount £000	Fair Value £000		Carrying amount £000	Fair Value £000	
<b>Financial liabilities at amortised cost</b>					
(232,333)	(232,333)	Creditors (contractual)	(215,116)	(215,116)	
(369,036)	(430,130)	Borrowing	(366,049)	(437,961)	
(139,193)	(139,193)	PFI / finance lease liabilities	(135,953)	(135,953)	
(740,562)	(801,656)		(717,118)	(789,030)	
<b>Financial Assets - loans and receivables</b>					
20,358	20,358	Investments	189,475	189,472	
151,893	151,893	Cash	71,654	71,654	
105,241	105,241	Debtors (contractual)	102,921	102,921	
277,492	277,492		364,050	364,047	

The fair value of borrowings varies from the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date.

The fair value of investments varies from the carrying amount because the Council's portfolio of investments includes some fixed rate investments where the interest rate earned is lower than the rates available for similar loans at the balance sheet date.

### 20.4 Nature and extent of risks arising from financial instruments

The Council's activities expose it to a variety of financial risks:

- **Credit risk** – the possibility that other parties might fail to pay amounts due to the Council.
- **Liquidity risk** – the possibility that the Council might not have funds available to meet its commitments to make payments.
- **Market risk** – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall treasury risk management framework focuses on the unpredictability of financial markets and arrangements for minimising these risks. An annual treasury management strategy is produced in compliance with statutory regulations and the CIPFA Treasury Management Code of Practice (i.e. the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral guidance notes).

## Section Two - Notes to the Financial Statements

---

Overall, these procedures require the Council to manage risks in the following ways:

- By approving annually limits on the overall level of borrowing, exposure to fixed and variable interest rates, maturity structure of debt and amount that can be invested beyond one year.
- By approving an annual investment strategy that establishes criteria for both investing and selecting counterparties in compliance with government guidance.

Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. In addition, the Council provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as from credit exposure associated with the Authority's customers.

The Council aims to minimise the credit risks associated with depositing funds with banks and financial institutions by only placing funds with those counterparties that have credit ratings equivalent to, or better than, the credit rating criteria set out within the Council's annual investment strategy.

Counterparties are considered for inclusion on the Council's lending list if they have all of the following credit ratings:

- **Short term rating** – provides an indication of the capacity of the financial institution to meet its financial commitments in the short term.
- **Long term rating** – provides an indication of the capacity of the financial institution to meet its financial commitments over the longer term.
- **Financial strength / viability rating** – provides a measure of the likelihood that a bank will require financial assistance from third parties such as its owners, its industry group or official institutions. It also considers how a bank would be viewed if it were entirely independent and could not rely upon external support.
- **Support rating** – provides an assessment of a potential supporter's (either a sovereign state or an institutional owner) propensity to support the bank or of its ability to support it.

Institutions that satisfy the Council's minimum criteria across each of these categories may be included on the Council's lending list. Nationalised / part-nationalised financial institutions may also be included. The short and long term ratings are further applied to determine the maximum amount that can be invested with individual counterparties and the maximum period of those investments. This approach ensures that the Council applies a consistent approach to the amount, and period, of investments with institutions exposed to similar risks.

## Section Two - Notes to the Financial Statements

Application of the credit rating criteria set out within the Annual Investment Strategy means that investment limits of **£35m, £50m or £60m** may be applied. Surplus cash balances are usually invested on a short term basis (i.e. for periods of up to 364 days) until the funds are next required. Funds invested on this basis are either placed 'on-call' or in short term 'fixed' period deposits. Because of the short term nature of these investments, it is possible for the Council to respond to changes in credit risks reasonably quickly.

The Council may invest its underlying cash balances on a longer term basis (ie: for periods beyond 364 days). Because it is not possible to respond to changes in credit risk as quickly, a limit is set within the annual treasury management strategy, upon the total amount that can be invested for periods beyond 364 days. For 2012/13, this limit was **£50m** (2011/12: £50m).

No credit limits were exceeded during 2012/13 and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last five years, adjusted to reflect current market conditions:

	Amount at 31 March 2013	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2013	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and other financial institutions				
AAA rated	4,100	0.000%	0.000%	-
AA rated	98,000	0.017%	0.017%	17
A rated	149,000	0.089%	0.089%	133
	<b>251,100</b>			<b>150</b>
Debtors (contractual)	<b>102,921</b>	8.510%	8.510%	<b>8,759</b>
Potential maximum exposure to credit risk	<b>354,021</b>			<b>8,909</b>

## Section Two - Notes to the Financial Statements

Of the total amount of debtors at 31 March 2013, the following amounts (analysed by age) are past their due date for payment:

2011/12			2012/13		
Debtors past due date £000	Provision for doubtful debts £000		Debtors past due date £000	Provision for doubtful debts £000	
6,688	645	Less than three months	5,681	362	
2,111	209	Three to six months	1,910	148	
5,379	1,349	Six months to one year	5,082	1,308	
14,018	7,696	More than one year	12,800	6,941	
<b>28,196</b>	<b>9,899</b>	<b>Total</b>	<b>25,473</b>	<b>8,759</b>	

The above table also shows the provision the Council has made for non-recovery of those debts past their due date; this provision does not constitute intent to write these debts off, but does recognise that some amounts might not be recovered.

### Liquidity risk

As the Council has ready access to borrowings from the Public Works Loans Board, there are no significant risks that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure a relatively even debt maturity profile through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

## Section Two - Notes to the Financial Statements

The maturity analysis of financial liabilities is as follows:

31 March 2012	Repayment period	31 March 2013				Total
		PWLB	Money Market	Castle Point DC	Other	
£000		£000	£000	£000	£000	£000
8,587	Less than one year	9,443	12,923	6	1,416	23,788
8,587	<b>Short term borrowing</b>	9,443	12,923	6	1,416	23,788
6,165	Between 1 and 2 years	1,211	20,000	-	-	21,211
3,786	Between 2 - 5 years	3,938	45,000	-	-	48,938
29,909	Between 5 - 10 years	37,709	-	-	-	37,709
26,923	Between 10 - 25 years	27,754	-	-	-	27,754
48,688	Between 25 - 40 years	68,688	-	-	-	68,688
167,978	Between 40 - 50 years	137,961	-	-	-	137,961
77,000	Over 50 years	-	-	-	-	-
360,449	<b>Long term borrowing</b>	277,261	65,000	-	-	342,261
369,036	<b>Total borrowing</b>	286,704	77,923	6	1,416	366,049

### Market risk

#### Interest rate risk

The Council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates could have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- Borrowings at fixed rates – the fair value of the liability borrowings will fall;
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise; and
- Investments at fixed rates – the fair value of the assets will fall.

Borrowing and investments are not carried at fair value, so nominal gains and losses on fixed rate borrowing and investments would not impact on the Surplus/deficit on the Provision of Services. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance pound for pound.

The Council has a number of strategies for managing interest rate risk. The overall policy is to aim to keep a maximum of **30%** of borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances are favourable, fixed rate loans will

## Section Two - Notes to the Financial Statements

be repaid early to limit exposure to losses. The risk of loss is mitigated by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2013, if interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

2011/12 £000		2012/13 £000	
413	Interest payable on variable rate borrowing	412	
(1,051)	Interest receivable on variable rate investments	(1,468)	
(638)	<b>Impact on Comprehensive Income and Expenditure Statement</b>	(1,056)	

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

### ▪ Price risk

The Council does not invest in equity shares and is therefore not exposed to gains or losses arising from movements in the prices of shares except where this impacts on its share of the liability of the Pension Fund.

### ▪ Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to losses or gains arising from movements in exchange rates.

## Section Two - Notes to the Financial Statements

### 21. Debtors

The following table analyses short and long term debtors by counter party grouping:

31 March 2012			31 March 2013		
Short term £000	Long term £000	Total £000	Short term £000	Long term £000	Total £000
<b>Public sector bodies</b>					
37,039	-	37,039	14,361	-	14,361
14,710	15,930	30,640	16,190	15,352	31,542
3,727	-	3,727	3,286	-	3,286
2	-	2	3	-	3
55,478	15,930	71,408	33,840	15,352	49,192
68,062	8,412	76,474	73,837	5,533	79,370
123,540	24,342	147,882	107,677	20,885	128,562
<b>Total</b>			<b>Total</b>		

Further details of the Council's long term debtors are as follows:

31 March 2012 £000		31 March 2013 £000
16,414	Debt outstanding on assets transferred to other bodies	15,649
5,896	Deferred capital receipts	3,121
2,032	Other long term debtors	2,115
24,342	<b>Balance as at 31 March</b>	<b>20,885</b>

### 22. Cash and cash equivalents

The following table shows the balance of cash and cash equivalents at 31 March.

31st March 2012 £000		31st March 2013 £000
<b>Amounts that form an integral part of the Council's cash management</b>		
71,380	Cash repayable on demand	54,402
60,485	Cash equivalents	10,005
(30,064)	Bank overdraft	(41,683)
378	Petty cash balances	347
102,179		23,071
49,714	<b>Cash held by schools</b>	<b>48,583</b>
151,893	<b>Total of cash and cash equivalents</b>	<b>71,654</b>

## Section Two - Notes to the Financial Statements

### 23. Creditors

The following table analyses short and long term creditors by counter party grouping:

31st March 2012			31st March 2013		
Short term £000	Long term £000	Total £000	Short term £000	Long term £000	Total £000
<b>Public sector bodies</b>					
3,418	-	3,418	3,980	76	4,056
32,345	-	32,345	27,604	-	27,604
2,267	-	2,267	1,871	-	1,871
375	-	375	2	-	2
38,405	-	38,405	33,457	76	33,533
212,939	-	212,939	196,801	146	196,947
<b>251,344</b>	<b>-</b>	<b>251,344</b>	<b>230,258</b>	<b>222</b>	<b>230,480</b>
			<b>Other entities</b>		
			<b>Total</b>		

### 24. Grant receipts in advance

Where grants or contributions have been received, but the conditions attached to the funding are not satisfied, the amount is carried in the Balance Sheet as a receipt in advance.

An analysis of the amounts carried in the Balance Sheet as a receipt in advance is as follows:

31st March 2012			31st March 2013		
Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
<b>Department of Education</b>					
4	18,318	18,322	5	1,650	1,655
7,366	-	7,366	5,845	-	5,845
1,281	2,289	3,570	-	3,249	3,249
8,651	20,607	29,258	5,850	4,899	10,749
<b>Other grants</b>					
3,749	-	3,749	2,427	36	2,463
332	986	1,318	-	264	264
1,077	-	1,077	1,000	-	1,000
653	-	653	528	-	528
170	-	170	-	-	-
1,023	-	1,023	1,225	50	1,275
7,004	986	7,990	5,180	350	5,530
<b>15,655</b>	<b>21,593</b>	<b>37,248</b>	<b>11,030</b>	<b>5,249</b>	<b>16,279</b>
3,252	39,554	42,806	4,927	39,088	44,015
<b>18,907</b>	<b>61,147</b>	<b>80,054</b>	<b>15,957</b>	<b>44,337</b>	<b>60,294</b>
			<b>Total of grant receipts in advance</b>		
			<b>Developer contributions (\$106)</b>		
			<b>Total</b>		

## Section Two - Notes to the Financial Statements

### 25. Provisions

The Council has set funds aside as provisions to meet obligations related to events that have taken place which probably require settlement by the transfer of economic benefits. An explanation of each provision is as follows:

Provision	Purpose
Insurance	<p>The Insurance Provision represents the estimated outstanding liabilities of the Council that are likely to be paid over a number of years. They arise due to the self insured elements of the Council's Insurance programme and other claims related to the period when Municipal Mutual Insurance (MMI) and Independent Insurance were the Council's insurers.</p> <p>MMI insured the Council's liability risks from 1977, until they ceased trading in 1992. Since ceasing trading, MMI has been dealing with all outstanding claims, operating under a contingent Scheme of Arrangements. This Scheme allows MMI to claw back monies paid (in the form of a levy) from the scheme participants in the event that it has insufficient funds itself to pay remaining claims.</p> <p>The Scheme was triggered, and therefore came into effect, on <b>13<sup>th</sup> November 2012</b> and, as a result:</p> <ul style="list-style-type: none"> <li>▪ The Council is required to make an initial levy payment to the Scheme Administrator of <b>15%</b> of all claims for which it has received settlement since 1993. As a result of the need for new claims handling and payment procedures, the timing of the levy payment has not yet been determined by the Scheme Administrator. Therefore, the Insurance Provision includes <b>£1.068m</b> to meet this levy obligation.</li> <li>▪ Under the Scheme arrangements, the Council is also now required to meet a percentage (currently <b>85%</b>) of any future claims made. The Insurance Provision therefore includes an allowance for this liability.</li> </ul> <p>Independent Insurance was the Council's insurer for the liability classes of business from 1st April 1993 to 31st March 2001, and went into provisional liquidation on 17th June 2001. It is currently not expected that any payments will be received from Independent Insurance.</p>
Landfill aftercare	<p>The Council has responsibility for the aftercare of twelve former landfill sites. Restoration work was undertaken at all sites during the 1990's, when the sites were closed. However, the Council continues to monitor each site, and to operate and maintain pollution control infrastructure, to ensure that these sites do not bring harm to human health, property and the environment; the Council will have this obligation until the sites</p>

## Section Two - Notes to the Financial Statements

Provision	Purpose
	<p>become inert.</p> <p>As the Council expects to discharge its environmental monitoring liabilities over a prolonged period, the provision has been discounted to the present value of the expenditures expected to be required to settle the obligation.</p>
Restructuring	This provision represents the best estimate of the amount the Council is committed to pay as a consequence of formal plans for the restructuring of certain services, where these plans are likely to result in the termination of a number of employees' employment before their normal retirement date.
Carbon reduction commitment	This provision represents the Council's liability to purchase and surrender Carbon Reduction Commitment (CRC) carbon allowances, in accordance with the requirements of the CRC Energy Efficiency Scheme, in respect of CO <sup>2</sup> emissions.
Highways	This provision relates to claims for compensation in relation to the construction of a road.
Schools' capital provisions	Provision has been made for various loss and expense claims related to construction work at various schools.
Other	Provisions have been established for various minor matters.

## Section Two - Notes to the Financial Statements

Provisions are split between current (amounts expected to be settled within 12 months) and non-current (those expected to be settled beyond the next 12 months), as follows:

	Insurance Provision	Landfill aftercare	Restructuring	Carbon Reduction Commitment	Highways provision	Schools' capital provisions	Other provisions	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Current provisions</b>								
<b>Balance at 1st April 2011</b>	(5,000)	-	(3,808)	-	(399)	(122)	(1,563)	(10,892)
Amounts arising	-	-	(337)	(1,378)	-	-	(51)	(1,766)
Provisions reversed	-	-	1,744	-	-	-	464	2,208
Provisions utilised	2,089	-	2,064	-	149	122	469	4,893
Amounts reclassified as current	(2,089)	-	-	-	-	-	(261)	(2,350)
<b>Balance at 31st March 2012</b>	(5,000)	-	(337)	(1,378)	(250)	-	(942)	(7,907)
Amounts arising	-	(296)	(196)	(1,080)	(43)	-	(1,127)	(2,742)
Provisions reversed	-	-	139	309	133	-	25	606
Provisions utilised	4,436	-	198	1,069	117	-	1,688	7,508
Amounts reclassified as current	(4,436)	-	-	-	-	-	-	(4,436)
<b>Balance at 31st March 2013</b>	<b>(5,000)</b>	<b>(296)</b>	<b>(196)</b>	<b>(1,080)</b>	<b>(43)</b>	<b>-</b>	<b>(356)</b>	<b>(6,971)</b>
<b>Non-current provisions</b>								
<b>Balance at 1st April 2011</b>	(23,189)	-	-	-	-	-	(261)	(23,450)
Amounts arising	-	-	-	-	-	-	-	-
Provisions reversed	-	-	-	-	-	-	-	-
Provisions utilised	-	-	-	-	-	-	-	-
Amounts reclassified as current	2,089	-	-	-	-	-	261	2,350
<b>Balance at 31st March 2012</b>	(21,100)	-	-	-	-	-	-	(21,100)
Amounts arising	(1,828)	(7,060)	(8)	-	-	-	-	(8,896)
Provisions reversed	-	-	-	-	-	-	-	-
Provisions utilised	-	-	-	-	-	-	-	-
Amounts reclassified as current	4,436	-	-	-	-	-	-	4,436
<b>Balance at 31st March 2013</b>	<b>(18,492)</b>	<b>(7,060)</b>	<b>(8)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(25,560)</b>
<b>Total current and non-current provisions</b>								
31st March 2012	(26,100)	-	(337)	(1,378)	(250)	-	(942)	(29,007)
31st March 2013	(23,492)	(7,356)	(204)	(1,080)	(43)	-	(356)	(32,531)

## 26. Contingent liabilities

### 26.1 Insurance liabilities

The Insurance Provision represents the estimated outstanding liabilities that the Council is likely to be required to pay as a result of the self-insured elements of the Council's Insurance programme and other claims related to the period when Municipal Mutual Insurance (MMI) and Independent Insurance were the Council's insurers. However, it is possible that the Council may be required to settle liabilities in excess of those for which provision has been made.

### 26.2 Restructuring costs

It is possible that there will be additional redundancy costs as a result of the Council's Transformation programme (see paragraph 6.1 of the Explanatory Foreword, on page 9) in excess of those for which provision has been made.

## Section Two - Notes to the Financial Statements

---

### 27. Usable reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement, which is shown on page 19.

### 28. Unusable reserves

#### 28.1 Introduction

The Council maintains a number of unusable reserves which are held for statutory reasons or to comply with property accounting practice. The Council is not able to use these reserves to provide services. Notes 28.2 to 28.8 explain the purpose of each unusable reserve and the movements in these reserves during the year.

#### 28.2 Revaluation Reserve

This reserve records the gains made by the Council arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- Re-valued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was established. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

## Section Two - Notes to the Financial Statements

The following table provides an analysis of the movements on the Revaluation Reserve:

2011/12		2012/13	
£000		£000	£000
(120,510)	Balance as at 1 April		(218,739)
(116,336)	Revaluation of non current assets (increases)	(199,018)	
7,790	Revaluation of non current assets (subsequent decreases)	19,634	
(108,546)	Surplus on revaluations		(179,384)
957	Depreciation on revaluation gains	8,248	
9,360	Accumulated gains on assets sold or scrapped	18,971	
10,317	Amounts written off to the Capital Adjustment Account		27,219
(218,739)	Balance as at 31 March		(370,904)

### 28.3 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The following table provides an analysis of the movements on the Capital Adjustment Account.

## Section Two - Notes to the Financial Statements

2011/12		2012/13	
£000		£000	£000
(1,606,446)	<b>Balance as at 1 April</b>		<b>(1,459,916)</b>
	<b>Reversal of items related to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement</b>		
51,312	Depreciation	55,173	
109,547	Impairment of non-current assets	68,282	
(16,373)	Donated assets	(480)	
63,747	Revenue expenditure financed from capital under statute	27,392	
168,849	Cost / value of assets disposed of during the year	159,074	
<u>377,082</u>			<u>309,441</u>
	<b>Adjusting amounts written out of the Revaluation Reserve</b>		
(957)	Difference between fair value and historical cost depreciation	(8,248)	
(9,360)	Revaluation gains outstanding for assets upon disposal	(18,971)	
<u>(10,317)</u>			<u>(27,219)</u>
366,765	<b>Net written out amount of the cost of non current assets consumed in the year</b>		<b>282,222</b>
	<b>Capital financing applied in the year</b>		
(6,000)	Revenue reserves applied	(9,759)	
(34,489)	Statutory provision for the financing of capital investment	(33,715)	
(23,121)	Capital receipts applied	(12,942)	
	Capital grants and contributions applied to finance:		
(93,925)	Capital Expenditure	(55,927)	
(52,401)	Revenue expenditure funded from capital	(22,679)	
(10,388)	Application of grants from the Capital Grants Unapplied Account	(18,291)	
<u>(220,324)</u>			<u>(153,313)</u>
89	<b>Movement in market value of investment properties</b>		<b>(650)</b>
<u>(1,459,916)</u>	<b>Balance as at 31 March</b>		<u><b>(1,331,657)</b></u>

## Section Two - Notes to the Financial Statements

### 28.4 Financial Instruments Adjustment Account

This account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the Account to manage:

- Premiums paid on the early redemption of loans, such that the expense is recognised in the General Fund over the unexpired term that was outstanding on the loans when they were redeemed;
- Discounts received on the early redemption of loans, such that the benefit is recognised in the General Fund over a maximum period of 10 years.

2011/12				2012/13		
Premiums £000	Discounts £000	Total £000		Premiums £000	Discounts £000	Total £000
8,125	(4,783)	3,342	Balance as at 1 April	7,902	(4,601)	3,301
(128)	18	(110)	Amortisation of premiums / discounts to the General Fund	(127)	18	(109)
(95)	164	69	Transfer from the General Fund for the difference between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statutory provisions relating to premiums and discounts on the early repayment of debt	(95)	164	69
7,902	(4,601)	3,301	Balance as at 31 March	7,680	(4,419)	3,261

### 28.5 Pension Reserve

The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible. The Pension Reserve therefore absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.

## Section Two - Notes to the Financial Statements

2011/12				2012/13		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
633,190	40,088	673,278	Balance as at 1 April	857,538	36,293	893,831
			Appropriation from Pension Reserve			
50,336	-	50,336	Current service (pension) costs	57,674	-	57,674
-	-	-	Past service cost	-	-	-
4,133	-	4,133	Curtailment	2,305	-	2,305
(72,650)	-	(72,650)	Settlement	(25,342)	-	(25,342)
100,934	2,091	103,025	Interest cost	94,735	1,595	96,330
(84,073)	-	(84,073)	Expected return on assets	(72,609)	-	(72,609)
(64,601)	(2,773)	(67,374)	Pension costs payable from Council Tax	(56,582)	(3,261)	(59,843)
(65,921)	(682)	(66,603)	Total appropriation from Pension Reserve	181	(1,666)	(1,485)
290,269	(3,113)	287,156	Actuarial (gain) / loss	60,981	12,411	73,392
857,538	36,293	893,831	Balance as at 31 March	918,700	47,038	965,738

The debit balance on the Pensions Reserve shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. Statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

### 28.6 Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2011/12 £000		2012/13 £000
(6,221)	Balance as at 1 April	(5,221)
1,000	Amounts received	2,000
(5,221)	Balance as at 31 March	(3,221)

## Section Two - Notes to the Financial Statements

### 28.7 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2011/12 £000		2012/13 £000	
(2,915)	<b>Balance at 1 April</b>	(2,576)	
	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements		
339		(3,666)	
<u>(2,576)</u>	<b>Balance as at 31 March</b>	<u>(6,242)</u>	

### 28.8 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year (e.g. annual leave entitlement carried forward at 31st March). Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2011/12 £000		2012/13 £000      £000	
24,316	<b>Balance as at 1 April</b>		17,542
(24,316)	Settlement or cancellation of accrual made at the end of the preceding year	(17,542)	
17,542	Amounts accrued for at the end of the current year	16,543	
<u>(6,774)</u>	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		<u>(999)</u>
<u>17,542</u>	<b>Balance as at 31 March</b>	<u>16,543</u>	

## Section Two - Notes to the Financial Statements

---

### **29. Cash Flows from operating, investing and financing activities**

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery.

Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

The cash flows from operating, investing and financing activities include the following items:

## Section Two - Notes to the Financial Statements

2011/12 £000		2012/13 £000      £000	
<b>Cash flows from operating activities</b>			
<b>Cash inflows</b>			
(797,256)	Taxation	(851,052)	
(1,062,466)	Grants	(876,303)	
(242,718)	Sales of goods and rendering of services	(222,657)	
(3,791)	Interest received	(2,895)	
(1,000)	Dividends received	-	
<u>(2,107,231)</u>			(1,952,907)
<b>Cash outflows</b>			
751,452	Cash paid to and on behalf of employees	616,318	
28,351	Interest paid	29,329	
1,102,800	Cash paid to suppliers of goods and services	1,081,389	
138,158	Other payments for operating activities	104,199	
<u>2,020,761</u>			1,831,235
<u>(86,470)</u>	<b>Net inflow of cash from operating activities</b>		<u>(121,672)</u>
<b>Cash flows from investing activities</b>			
<b>Cash inflows</b>			
(5,830)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(12,815)	
(2,689)	Proceeds from short and long term investments	-	
(127,154)	Other receipts from investing activities	(91,060)	
<u>(135,673)</u>			(103,875)
<b>Cash outflows</b>			
138,478	Purchase of property, plant and equipment, investment property and intangible assets	96,326	
651	Purchase of short and long term investments	168,342	
63,747	Other payments for investing activities	27,392	
<u>202,876</u>			292,060
<u>67,203</u>	<b>Net outflow of cash from investing activities</b>		<u>188,185</u>
<b>Cash flows generated from financing activities</b>			
<b>Cash inflows</b>			
-	Cash receipts of short and long term borrowing	-	
(50,914)	Other receipts from financing activities	(114)	
<u>(50,914)</u>			(114)
<b>Cash outflows</b>			
3,202	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	3,136	
373	Other payments for financing activities	10,704	
<u>3,575</u>			13,840
<u>(47,339)</u>	<b>Net (inflow) / outflow of cash from financing activities</b>		<u>13,726</u>
<u>(66,606)</u>	<b>Net (increase) / decrease in cash and cash equivalents</b>		<u>80,239</u>

## Section Two - Notes to the Financial Statements

---

### 30. Amounts reported for resource allocation decisions

#### 30.1 Analysis of income and expenditure

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council on the basis of Cabinet members' respective responsibilities for service delivery. Cabinet reports are prepared on a different basis to that applied in the financial statements. In particular:

- No charges are made in relation to capital expenditure, whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement.
- The cost of retirement benefits is based upon payment of employer's pension contributions rather than current service cost of benefits accrued in the year.
- Expenditure on support services is accounted for centrally, whereas they are charged to services in the Comprehensive Income and Expenditure Statement.

The income and expenditure of each of the Cabinet members' portfolios is shown in the following table. Prior year comparatives have been restated in accordance with the respective responsibilities of Cabinet members throughout 2012/13.

## Analysis of amounts reported for resource allocation in 2011/12

2011/12	Income			Grants	Expenditure						Controllable Net Expenditure
	Fees, charges and other service income	Interest and investment income	Corporate amounts		Employee expenses	Other Service expenses	Interest payable and similar charges	Precepts & levies	Gain or loss on disposal of fixed assets	Corporate amounts	
	£000	£000	£000		£000	£000	£000	£000	£000	£000	
Adult Social Care	(77,093)	-	-	(66,054)	48,984	423,766	-	-	-	-	329,603
Education and Lifelong Learning	(75,341)	-	-	(819,067)	646,482	304,918	5,805	-	-	1,842	64,639
Families and Children	(6,751)	-	-	(5,227)	70,185	100,828	-	-	-	-	159,035
Highways and Transportation	(20,671)	-	-	(6,361)	18,199	94,609	7,014	-	-	1,496	94,286
Waste and Recycling	(2,366)	-	-	-	4,626	58,320	-	-	-	-	60,580
Public Health and Wellbeing	(12,371)	-	-	(827)	12,568	27,019	-	-	-	-	26,389
Economic Growth and Infrastructure	(988)	-	-	(2,916)	3,874	4,128	-	-	-	16	4,114
Leader and Finance	(185)	-	-	(117)	5,307	4,392	-	1,684	-	-	11,081
Libraries, Communities and Planning	(7,746)	-	-	(604)	19,471	10,679	30	1,574	-	-	23,404
Transformation and Support Services	(115)	-	(41)	-	519	407	-	-	-	-	770
	(203,627)	-	(41)	(901,173)	830,215	1,029,066	12,849	3,258	-	3,354	773,901
Recharged Support Services											
Facilities Management Service	-	-	-	-	-	19,686	-	-	-	-	19,686
Information Services	-	-	-	-	-	10,191	-	-	-	-	10,191
Finance	-	-	-	-	-	15,389	-	-	-	-	15,389
Transformation Support Unit	-	-	-	-	-	5,658	-	-	-	-	5,658
Customer Services	-	-	-	-	-	5,239	-	-	-	-	5,239
Human Resources	-	-	-	-	-	6,620	-	-	-	-	6,620
Other Recharged Strategic Support Services	-	-	-	-	-	19,163	-	-	19	-	19,182
Operating costs	-	(2,608)	(40,317)	-	-	-	14,637	-	-	86,120	57,832
<b>Net cost of services (portfolios)</b>	<b>(203,627)</b>	<b>(2,608)</b>	<b>(40,358)</b>	<b>(901,173)</b>	<b>830,215</b>	<b>1,111,012</b>	<b>27,486</b>	<b>3,258</b>	<b>19</b>	<b>89,474</b>	<b>913,698</b>

Note:

Prior year comparatives have been restated in accordance with the respective responsibilities of Cabinet members throughout 2012/13.

## Analysis of amounts reported for resource allocation in 2012/13

2012/13	Income			Grants	Expenditure						Controllable Net Expenditure
	<i>Fees, charges and other service income</i>	<i>Interest and investment income</i>	<i>Corporate amounts</i>		<i>Employee expenses</i>	<i>Other Service expenses</i>	<i>Interest payable and similar charges</i>	<i>Precepts &amp; levies</i>	<i>Gain or loss on disposal of fixed assets</i>	<i>Corporate amounts</i>	
	£000	£000	£000		£000	£000	£000	£000	£000	£000	
Adult Social Care	(74,490)	-	-	(71,873)	44,282	419,078	-	-	-	-	316,997
Education and Lifelong Learning	(54,971)	-	-	(685,750)	493,218	300,772	7,018	-	-	1,462	61,749
Families and Children	(6,590)	-	-	(4,552)	55,921	89,190	-	-	-	-	133,969
Highways and Transportation	(19,948)	-	-	(636)	17,198	87,508	6,817	-	-	1,702	92,641
Waste and Recycling	(2,054)	-	-	-	4,999	59,791	-	-	-	-	62,736
Public Health and Wellbeing	(13,652)	-	-	(913)	12,687	29,266	-	-	-	-	27,388
Economic Growth and Infrastructure	(933)	-	-	(1,776)	3,714	3,363	-	-	-	8	4,376
Leader and Finance	(630)	-	-	(1,321)	19,638	4,311	-	1,678	-	-	23,676
Libraries, Communities and Planning	(7,929)	-	-	(448)	17,888	11,292	15	1,536	-	-	22,354
Transformation and Support Services	(352)	-	(55)	-	-	845	-	-	-	-	438
<b>Sub total</b>	<b>(181,549)</b>	<b>-</b>	<b>(55)</b>	<b>(767,269)</b>	<b>669,545</b>	<b>1,005,416</b>	<b>13,850</b>	<b>3,214</b>	<b>-</b>	<b>3,172</b>	<b>746,324</b>
Recharged Support Services											
Facilities Management Service	-	-	-	-	-	21,161	-	-	-	-	21,161
Information Services	-	-	-	-	-	16,335	-	-	-	-	16,335
Finance	-	-	-	-	-	12,197	-	-	-	-	12,197
Transformation Support Unit	-	-	-	-	-	5,692	-	-	-	-	5,692
Customer Services	-	-	-	-	-	5,197	-	-	-	-	5,197
Human Resources	-	-	-	-	-	5,048	-	-	-	-	5,048
Other Recharged Strategic Support Services	-	-	-	-	-	11,914	-	-	33	-	11,947
Operating costs	-	(3,173)	(31,733)	-	-	-	14,612	-	-	119,216	98,922
<b>Net cost of services (portfolios)</b>	<b>(181,549)</b>	<b>(3,173)</b>	<b>(31,788)</b>	<b>(767,269)</b>	<b>669,545</b>	<b>1,082,960</b>	<b>28,462</b>	<b>3,214</b>	<b>33</b>	<b>122,388</b>	<b>922,823</b>

## Section Two - Notes to the Financial Statements

### 30.2 Reconciliation to the Cost of Services

The following table provides a reconciliation of the figures in the analysis of Cabinet members' income and expenditure to the amounts included in the Comprehensive Income and Expenditure Statement:

2011/12 £000		2012/13 £000
913,698	<b>Net expenditure in the Portfolio Analysis</b>	<b>922,823</b>
149,669	Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	<b>184,258</b>
(163,449)	Amounts included in the Analysis but not included in the Cost of Services in the Comprehensive Income and Expenditure Statement	<b>(201,888)</b>
<b>899,918</b>	<b>Cost of Services in the Comprehensive Income &amp; Expenditure Statement</b>	<b>905,193</b>

### 30.3 Reconciliation to Subjective Analysis

The following reconciliation shows how the figures in the analysis of Cabinet Members' income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

# Reconciliation to Subjective Analysis - 2011/12

2011/12	Portfolio Analysis	Amounts not reported to management for decision making	Amounts not included in the Cost of Services	Cost of Services	Corporate amounts	(Surplus) / deficit on the provision of services
	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(203,627)	(2,080)	-	(205,707)	-	(205,707)
Interest and investment income	(2,608)	-	2,608	-	(2,608)	(2,608)
Corporate amounts	(40,358)	-	40,358	-	(85,114)	(85,114)
Income from council tax	-	-	-	-	(580,193)	(580,193)
Income from non domestic rates	-	-	-	-	(216,724)	(216,724)
<b>Total income</b>	<b>(246,593)</b>	<b>(2,080)</b>	<b>42,966</b>	<b>(205,707)</b>	<b>(884,639)</b>	<b>(1,090,346)</b>
<b>Total Government Grants</b>	<b>(901,173)</b>	<b>(50,529)</b>	<b>-</b>	<b>(951,702)</b>	<b>(259,162)</b>	<b>(1,210,864)</b>
Employee expenses	830,215	(6,003)	(86,130)	738,082	-	738,082
Other service expenditure	1,111,012	63,747	-	1,174,759	-	1,174,759
Depreciation, amortisation and impairment	-	160,859	-	160,859	-	160,859
Donated assets	-	(16,373)	-	(16,373)	-	(16,373)
Interest payable and similar charges	27,486	(41)	(27,445)	-	27,445	27,445
Precepts and levies	3,258	-	(3,258)	-	3,258	3,258
Gain or loss on disposal of fixed assets	19	-	(19)	-	164,538	164,538
Corporate amounts	89,474	89	(89,563)	-	101,297	101,297
<b>Total gross expenditure</b>	<b>2,061,464</b>	<b>202,278</b>	<b>(206,415)</b>	<b>2,057,327</b>	<b>296,538</b>	<b>2,353,865</b>
<b>Surplus or deficit on the provision of services</b>	<b>913,698</b>	<b>149,669</b>	<b>(163,449)</b>	<b>899,918</b>	<b>(847,263)</b>	<b>52,655</b>

# Reconciliation to Subjective Analysis - 2012/13

2012/13	Portfolio Analysis	Amounts not reported to management for decision making	Amounts not included in the Cost of Services	Cost of Services	Corporate amounts	(Surplus) / deficit on the provision of services
	£000	£000	£000	£000	£000	£000
Fees, charges and other service income	(181,549)	(1,896)	-	(183,445)	-	(183,445)
Interest and investment income	(3,173)	-	3,173	-	(3,173)	(3,173)
Corporate amounts	(31,788)	-	31,788	-	(72,664)	(72,664)
Income from council tax	-	-	-	-	(585,144)	(585,144)
Income from non domestic rates	-	-	-	-	(269,574)	(269,574)
<b>Total income</b>	<b>(216,510)</b>	<b>(1,896)</b>	<b>34,961</b>	<b>(183,445)</b>	<b>(930,555)</b>	<b>(1,114,000)</b>
<b>Total Government Grants</b>	<b>(767,269)</b>	<b>(20,883)</b>	<b>-</b>	<b>(788,152)</b>	<b>(181,131)</b>	<b>(969,283)</b>
Employee expenses	669,545	57,359	(83,442)	643,462	-	643,462
Other service expenditure	1,082,960	27,392	-	1,110,352	-	1,110,352
Depreciation, amortisation and impairment	-	123,456	-	123,456	-	123,456
Donated assets	-	(480)	-	(480)	-	(480)
Interest payable and similar charges	28,462	(40)	(28,422)	-	28,422	28,422
Precepts and levies	3,214	-	(3,214)	-	3,214	3,214
Gain or loss on disposal of fixed assets	33	-	(33)	-	148,292	148,292
Corporate amounts	122,388	(650)	(121,738)	-	93,243	93,243
<b>Total gross expenditure</b>	<b>1,906,602</b>	<b>207,037</b>	<b>(236,849)</b>	<b>1,876,790</b>	<b>273,171</b>	<b>2,149,961</b>
<b>Surplus or deficit on the provision of services</b>	<b>922,823</b>	<b>184,258</b>	<b>(201,888)</b>	<b>905,193</b>	<b>(838,515)</b>	<b>66,678</b>

## Section Two - Notes to the Financial Statements

### 31. Termination benefits

The Council is undertaking a major transformation programme to improve core services, meet difficult budget pressures in challenging times and deliver better customer services. This transformation programme includes projects aimed at modernising working practices and utilising mobile technology and will reshape the Council into a smaller core organisation.

An unavoidable consequence of this programme is that a number of employees were made redundant during 2011/12 and 2012/13. The liabilities were recognised in the Cost of Services, in the Comprehensive Income and Expenditure Statement, as follows:

2011/12 Restated £000		2012/13 £000
558	Adult Social Care	140
9,118	Children's and Education Services	3,366
574	Cultural and Related Services	684
37	Environmental and Regulatory Services	-
206	Highways and Transport Services	1,339
-	Housing Services	-
492	Planning Services	58
-	Central Services to the public	-
428	Corporate and democratic core	32
169	Trading activities	1,035
<b>11,582</b>	<b>Total</b>	<b>6,654</b>

Notes:

- The prior year comparative figures (reported as £12.020m in the 2011/12 Statement of Accounts) have been restated as the number and value of termination payments in respect of employees on notice of redundancy at 31<sup>st</sup> March 2012 were lower than forecast.
- The above figures include provision for termination benefits arising from formal plans for the restructuring of certain services, where actual exit packages have yet to be agreed at each 31st March. Provision is raised on the basis of the best estimate of costs; actual costs, arising in 2012/13, were **£258,000** lower than the provision raised in 2011/12.

## Section Two - Notes to the Financial Statements

The numbers of exit packages agreed in each year are set out in the table below:

2011/12 (Restated)				Value of exit packages	2012/13			
No. packages agreed in the year			Total cost of packages £000		No. packages agreed in the year			Total cost of packages £000
Compulsory	Other	Total			Compulsory	Other	Total	
697	223	920	5,337	Less than £20,000	185	169	354	2,254
100	44	144	3,871	£20,000 to £39,999	32	40	72	1,981
15	15	30	1,419	£40,000 to £59,999	5	10	15	730
3	7	10	717	£60,000 to £79,999	8	4	12	858
3	5	8	698	£80,000 to £99,999	3	3	6	503
1	6	7	945	£100,000 to £349,999	-	3	3	322
819	300	1,119	12,987	Total no. of agreed packages	233	229	462	6,648
			(1,405)	Other termination benefits				6
			11,582					6,654

**Note:**

*The prior year comparative figures have been restated as the number and value of exit packages in respect of employees on notice of redundancy at 31<sup>st</sup> March 2012 were lower than forecast.*

The packages included above are those that have been agreed by the Council. The agreement may be legal, contractual or constructive at the end of the financial year in question. The exit packages include all redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.

The Council is required to recognise the costs of termination benefits within the Comprehensive Income and Expenditure Account as it becomes committed to formal restructuring plans, even if individual exit packages have yet to be agreed. For this reason, the total cost of packages agreed may differ from the amounts charged to the Comprehensive Income and Expenditure Account in each year; the 'other termination benefits' line provides a reconciliation between the total cost of packages agreed and the amounts charged to the Comprehensive Income and Expenditure Account.

### 32. Pension Schemes accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. The scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

## Section Two - Notes to the Financial Statements

The following table shows the amounts the Council paid to the Department for Education in respect of teachers' pension costs.

2011/12 £000		2012/13 £000
43,945	Employer's contributions	32,881
20,612	Employee contributions	17,932
<u>64,557</u>	Total paid to Department For Education	<u>50,813</u>

These amounts reflect:

- An employer contribution of **14.1%** (2011/12: 14.1%).
- An employee contribution of between **6.4%** and **8.8%** of teachers' pensionable pay (2011/12: 6.4%).

There were no contributions remaining payable at the year end.

The Council is responsible for all pension payments relating to added years that it has awarded, together with the related increases. In 2012/13, these amounted to **£3.26m** (2011/12: £2.78m), representing **0.9%** of pensionable pay (2011/12: 0.9%). These costs are accounted for on a defined benefit basis and detailed in note 33.

The Council's contributions are set in relation to the current service period only. As such, the Council is not entitled to, or liable for, any of the underlying assets or liabilities of the scheme.

### 33. Defined Benefit Pension Schemes

#### 33.1 Participation in Pension Schemes

As part of the terms and conditions of the employment of its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post retirement employment schemes:

- The Local Government Pension Scheme, which is administered by the Council, and is a funded defined benefit final salary scheme. This means that the Council and employees pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets.

## Section Two - Notes to the Financial Statements

- Arrangements for the award of discretionary post retirement benefits upon early retirement in relation to the teachers' pension scheme. This is an unfunded defined benefits arrangement, under which the liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions liabilities, and cash has to be generated to meet the actual pension payments as they eventually fall due.

### 33.2 Transactions relating to post-employment benefits

The Council recognises the cost of retirement benefits in the Comprehensive Income and Expenditure Statement (Cost of Services) when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during the year:

2011/12			2012/13		
LGPS £000	Teachers £000	Total £000	LGPS £000	Teachers £000	Total £000
<b>Comprehensive Income and Expenditure Statement</b>					
<b>Cost of Services</b>					
50,336	-	50,336	57,674	-	57,674
4,133	-	4,133	2,305	-	2,305
(72,650)	-	(72,650)	(25,342)	-	(25,342)
(18,181)	-	(18,181)	34,637	-	34,637
<b>Financing and Investment Income and Expenditure</b>					
100,934	2,091	103,025	94,735	1,595	96,330
(84,073)	-	(84,073)	(72,609)	-	(72,609)
16,861	2,091	18,952	22,126	1,595	23,721
(1,320)	2,091	771	56,763	1,595	58,358
<b>Other charges to the Comprehensive Income &amp; Expenditure Statement</b>					
290,269	(3,113)	287,156	60,981	12,411	73,392
288,949	(1,022)	287,927	117,744	14,006	131,750
<b>Movement in Reserves Statement</b>					
1,320	(2,091)	(771)	(56,763)	(1,595)	(58,358)
64,601	2,773	67,374	56,582	3,261	59,843
65,921	682	66,603	(181)	1,666	1,485

The cumulative value of actuarial losses recognised in the Comprehensive Income and Expenditure Statement is **£707.109m** (2011/12: £633.717m loss).

## Section Two - Notes to the Financial Statements

### 33.3 Assets and liabilities in relation to post-employment benefits

#### Scheme Liabilities

The following table provides a reconciliation of the present value of scheme liabilities:

2011/12				2012/13		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
1,900,519	40,088	1,940,607	<b>Balance as at 1 April</b>	2,107,230	36,293	<b>2,143,523</b>
50,336	-	50,336	Current service cost	57,674	-	<b>57,674</b>
100,934	2,091	103,025	Interest Cost	94,735	1,595	<b>96,330</b>
18,706	-	18,706	Contributions by scheme participants	16,763	-	<b>16,763</b>
220,137	(3,113)	217,024	Actuarial (gains) / losses	140,445	12,411	<b>152,856</b>
(64,043)	(2,773)	(66,816)	Benefits paid	(70,995)	(3,261)	<b>(74,256)</b>
-	-	-	Past service costs	-	-	<b>-</b>
(123,492)	-	(123,492)	Settlements	(38,220)	-	<b>(38,220)</b>
4,133	-	4,133	Curtailments	2,305	-	<b>2,305</b>
2,107,230	36,293	2,143,523	<b>Balance as at 31 March</b>	2,309,937	47,038	<b>2,356,975</b>

#### Scheme Assets

The following table provides a reconciliation of the fair value of scheme assets:

2011/12				2012/13		
LGPS £000	Teachers £000	Total £000		LGPS £000	Teachers £000	Total £000
1,267,329	-	1,267,329	<b>Balance as at 1 April</b>	1,249,692	-	<b>1,249,692</b>
84,073	-	84,073	Expected return on scheme assets	72,609	-	<b>72,609</b>
(70,132)	-	(70,132)	Actuarial gains / (losses)	79,464	-	<b>79,464</b>
64,601	2,773	67,374	Contributions by the Council	56,582	3,261	<b>59,843</b>
18,706	-	18,706	Contributions by scheme participants	16,763	-	<b>16,763</b>
(64,043)	(2,773)	(66,816)	Benefits paid	(70,995)	(3,261)	<b>(74,256)</b>
(50,842)	-	(50,842)	Settlements	(12,878)	-	<b>(12,878)</b>
1,249,692	-	1,249,692	<b>Balance as at 31 March</b>	1,391,237	-	<b>1,391,237</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. In summary, expected yields / returns are based on the following:

- Government bonds: Yield on 20 year fixed interest gilts at the relevant date. The yield at 31st March 2013 was **3.0%** (31 March 2012: 3.3%);
- Corporate bonds: Market yields at the relevant date, less a reduction to reflect a risk of default in the corporate bond yield. As at 31st March 2013 the yield was **4.1%** (31st March 2012: 4.6%); and
- Equities: Yield on 20 year fixed interest gilts, plus an allowance of approximately 3% per annum for the 'risk premium' associated with equity investment. At 31st March 2013, the assumed return on equities was **6.1%** per annum (31 March 2012: 6.4%).

## Section Two - Notes to the Financial Statements

The actual return on the Local Government Pension Scheme assets for the year was a gain of **£154.849m** (2011/12: gain of £13.941m).

### Scheme History

	Local Government Pension Scheme			Teachers' Pension Scheme		
	Present value of liabilities	Fair value of scheme assets	Surplus / (deficit) in the Scheme	Present value of liabilities	Fair value of scheme assets	Surplus / (deficit) in the Scheme
	£000	£000	£000	£000	£000	£000
<b>2008/09</b>	(1,441,202)	891,470	<b>(549,732)</b>	-	-	-
<b>2009/10</b>	(1,954,983)	1,197,152	<b>(757,831)</b>	(42,975)	-	<b>(42,975)</b>
<b>2010/11</b>	(1,900,519)	1,267,329	<b>(633,190)</b>	(40,088)	-	<b>(40,088)</b>
<b>2011/12</b>	(2,107,230)	1,249,692	<b>(857,538)</b>	(36,293)	-	<b>(36,293)</b>
<b>2012/13</b>	(2,309,937)	1,391,237	<b>(918,700)</b>	(47,038)	-	<b>(47,038)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total net deficit of the two Schemes of **£965.738m** (2011/12: £893.831m) has a substantial impact on the net worth of the Council, as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- The deficit on the Local Government Pension Scheme will be made good by increased contributions over the next twenty years; and
- Finance is only required to be raised to cover teachers' unfunded added years when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2014 is **£52.249m**. Expected contributions for the Teachers' unfunded added years awards to 31 March 2014 are **£3.261m**.

### **33.4 Basis for estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis to estimate the pensions that will be payable in future years. The liabilities have been assessed using the projected unit credit method which is dependent on assumptions about mortality rates, salary levels etc. The Pension Fund liabilities have been assessed by Barnett Waddingham Public Sector Consulting, an independent firm of actuaries. The liabilities have been estimated, based upon the latest full valuation of the scheme as at 31 March 2010.

## Section Two - Notes to the Financial Statements

The principal assumptions used by the Actuary in its calculations for the Local Government Pension Scheme have been:

Assumptions	2011/12	2012/13
▪ Rate of inflation		
- RPI	3.3%	3.4%
- CPI	2.5%	2.6%
▪ Rate of increase in salaries	4.3%	4.4%
▪ Rate of increase in pensions	2.5%	2.6%
▪ Discount rate	4.6%	4.4%
▪ Mortality assumptions for members retiring in normal health:		
- Life expectancy for future pensioners retiring in 20 years' time at 65:		
▪ Male	24.1 years	24.2 years
▪ Female	26.8 years	26.9 years
- Life expectancy of current pensioners retiring today aged 65:		
▪ Male	22.7 years	22.7 years
▪ Female	25.3 years	25.3 years
▪ Commutation of pension for lump sum at retirement:		
- % taking maximum cash	50%	50%
- % taking 3/80 <sup>ths</sup> cash	50%	50%
▪ Long term expected rate of return on assets in the scheme:		
- Equities	6.4%	5.8% (see note)
- Government bonds	3.3%	
- Other bonds	4.6%	
- Property	5.4%	
- Cash / liquidity	0.5%	

Note:

For account years beginning on, or after, 1 January 2013, the expected return and interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the IAS 19 discount rate. Therefore, the Council is not required to disclose an expected return assumption for the year to 31<sup>st</sup> March 2014. For the year to 31<sup>st</sup> March 2013, the expected return was 5.8% per annum, which has been used to determine the Comprehensive Income and Expenditure Statement charge for the year.

## Section Two - Notes to the Financial Statements

The actuarial assumptions used in the calculations of the year-end balance sheet liabilities for Teachers' additional unfunded pensions are based on the above assumptions with the following exceptions:

Assumptions	2011/12	2012/13
▪ Rate of inflation		
- RPI	3.3%	3.1%
- CPI	2.5%	2.3%
▪ Rate of increase in pensions	2.5%	2.3%
▪ Discount rate	4.6%	3.1%

The Local Government Pension Scheme's assets consist of the following categories by proportion of the total assets held:

31st March 2012 %		31st March 2013 %
70	Equities	64
4	Government bonds	7
10	Other bonds	8
14	Property	12
2	Cash / liquidity	4
-	Alternative assets	5
<hr/> 100		<hr/> 100

## Section Two - Notes to the Financial Statements

### 33.5 History of experience gains and losses

The actuarial gains and losses identified as movements in the Pension Reserve can be analysed into the following categories, measured as a percentage of assets and liabilities at 31<sup>st</sup> March.

	Difference between expected and actual return on assets %	Experience gains and losses on liabilities %
2008/09	- 35.10%	0.00%
2009/10	+ 21.10%	0.00%
2010/11	- 2.20%	+ 2.80%
2011/12	- 5.60%	+ 0.70%
<b>2012/13</b>	<b>5.70%</b>	<b>-0.10%</b>

### 34. Audit costs

The following costs were in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Council's External Auditor:

2011/12				2012/13
2011/12 Accounts £000	Adjustments £000	Restated £000		£000
364	15	379	External audit services carried out by appointed auditor	219
62	(38)	24	Certification of grant claims and returns	21
-	-	-	Other services carried out by appointed auditor	110
426	(23)	403		350
(29)	-	(29)	Less: rebates in audit fees	(19)
397	(23)	374	Total fees payable to the appointed auditor	331

#### Notes:

- The outsourcing the Audit Commission's in-house Audit Practice, and internal efficiency savings, meant that the Audit Commission was able to prescribe significant reductions in audit fees to audited bodies for 2012/13.
- The fees payable in 2012/13 for other services related to specialist advice provided in relation to the Community Budget Pilot; this work was authorised by the Audit Commission.
- The prior year comparative figures have been restated to reflect the finally agreed fees associated with the audit of the 2011/12 accounts and the certification of grant claims.

## Section Two - Notes to the Financial Statements

### 35. Members' allowances and expenses

The total of allowances and expenses paid to Members of the Council during the year amounted to:

2011/12 £000		2012/13 £000
	<b>Members allowances</b>	
855	Basic allowances	852
677	Special responsibility allowances	678
<hr/> 1,532		<hr/> 1,530
90	<b>Members expenses</b>	77
<hr/> 1,622		<hr/> 1,607

### 36. Officers' remuneration

Officers' remuneration includes all sums paid to or receivable by employees, expense allowances chargeable to tax and the money value of benefits. It should be emphasised that this relates to payments to individuals, so part year employment can produce distortions in the presentation. Pension payments made, whether from a funded or unfunded scheme, do not count as remuneration for this purpose.

The numbers of officers whose remuneration amounted to £50,000 or more, grouped in rising bands of £5,000, are shown overleaf.

2011/12			Remuneration band		2012/13		
Non-schools	Schools	Total			Non-schools	Schools	Total
127	217	344	£50,000	to £54,999	122	173	295
81	180	261	£55,000	to £59,999	82	143	225
42	117	159	£60,000	to £64,999	44	102	146
44	70	114	£65,000	to £69,999	39	52	91
32	23	55	£70,000	to £74,999	27	22	49
20	10	30	£75,000	to £79,999	19	10	29
18	12	30	£80,000	to £84,999	20	5	25
17	6	23	£85,000	to £89,999	11	4	15
11	7	18	£90,000	to £94,999	12	3	15
8	4	12	£95,000	to £99,999	5	4	9
8	-	8	£100,000	to £104,999	9	1	10
7	2	9	£105,000	to £109,999	5	2	7
4	1	5	£110,000	to £114,999	3	-	3
-	-	-	£115,000	to £119,999	1	-	1
3	-	3	£120,000	to £124,999	2	-	2
-	1	1	£125,000	to £129,999	1	-	1
2	-	2	£130,000	to £134,999	2	-	2
2	-	2	£135,000	to £139,999	-	-	-
1	-	1	£140,000	to £144,999	1	-	1
-	-	-	£150,000	to £154,999	1	-	1
3	-	3	£155,000	to £159,999	2	-	2
1	-	1	£160,000	to £164,999	-	-	-
1	-	1	£170,000	to £174,999	1	-	1
1	-	1	£180,000	to £184,999	1	-	1
-	-	-	£210,000	to £214,999	1	-	1
1	-	1	£225,000	to £229,999	-	-	-
434	650	1,084	Total		411	521	932

## Section Two - Notes to the Financial Statements

### 37. Senior officers' remuneration

Senior officers include all members of the Council's Corporate Leadership Team and other statutory officers. Remuneration of senior officers was as follows:

	Notes	Remuneration						
		Salaries, fees and allowances	Bonus payments	Expense allowances / benefits	Compensation for loss of employment	Total remuneration Excl pension contributions	Employer's contribution to pension	Total remuneration Incl. pension contributions
		£	£	£	£	£	£	£
2011/12								
Chief Executive - Ms Joanna Killian	(iv)	225,000	-	744	-	225,744	29,025	254,769
Executive Director for Schools Children & Families - Mr David Hill		182,000	-	968	-	182,968	22,575	205,543
Executive Director - Environment, Sustainability & Highways - Mr Robert Overall		157,000	-	968	-	157,968	19,350	177,318
Deputy Chief Executive and Commissioning Director for Adult Social Services - Miss Jennifer Owen	(v)	162,000	-	702	-	162,702	19,932	182,634
Executive Director for Commercial Services - Mr Graham Tombs	(vi)	2,492	-	-	140,676	143,168	308	143,476
Director of Transformation - Mr Keir Lynch		157,000	-	968	-	157,968	19,350	177,318
Executive Director for Finance - Mrs Margaret Lee		157,000	-	992	-	157,992	19,350	177,342
Deputy Executive Director & Adult Social Care Director		127,452	-	3,429	-	130,881	16,423	147,304
Assistant Chief Executive		122,500	-	968	-	123,468	15,480	138,948
County Solicitor	(vii)	102,820	-	3,408	-	106,228	13,264	119,492
Assistant Director - Corporate law	(viii)	64,615	-	255	-	64,870	8,335	73,205
2012/13								
Chief Executive - Ms Joanna Killian		210,000	-	819	-	210,819	25,830	236,649
Executive Director for Schools Children & Families - Mr David Hill		182,000	-	1,093	-	183,093	21,525	204,618
Deputy Chief Executive and Executive Director - Environment, Sustainability & Highways - Mr Robert Overall		172,000	-	1,093	-	173,093	20,295	193,388
Director of Transformation - Mr Keir Lynch		157,000	-	1,093	-	158,093	18,450	176,543
Executive Director for Finance - Mrs Margaret Lee		157,000	-	1,093	-	158,093	18,450	176,543
Deputy Executive Director & Adult Social Care Director	(ix)	128,333	-	984	24,231	153,548	15,785	169,333
Assistant Chief Executive		123,000	-	1,093	-	124,093	14,760	138,853
Assistant Director - Corporate law		121,000	1,200	637	-	122,837	15,055	137,892

Notes:

- (i) Where a senior officer's salary is £50,000 or more, but less than £150,000, remuneration is disclosed individually by way of job title. For those senior officers whose salary is £150,000 or more, their name is also disclosed.
- (ii) The employers' contribution to pensions are not amounts paid to individual members of staff, rather they reflect amounts paid by the Council into the Pension Fund; these contributions have been made at the level determined at the last actuarial valuation as necessary to meet the cost of the future pension accrual.
- (iii) Bonus payments have been disclosed in the year of payment, but relate to performance in the preceding financial year.

## Section Two - Notes to the Financial Statements

- (iv) *The Council's Chief Executive also fulfilled the role of Chief Executive for Brentwood Borough Council until 31<sup>st</sup> March 2012, providing strategic management and coordination under a contract for services (see note 38, which commences on page 119, for further details).*
- (v) *Ms Jenny Owen, who occupied the post of Deputy Chief Executive and Commissioning Director for Adult Social Services, left the Council on 31<sup>st</sup> March 2012.*
- (vi) *Mr Graham Tombs, who occupied the post of Executive Director for Commercial Services, left the Council on 6th April 2011.*
- (vii) *The County Solicitor undertook the role of Monitoring Officer for the Council until 10<sup>th</sup> October 2011.*
- (viii) *The Assistant Director – Corporate Law assumed the role of Monitoring Officer with effect from 11<sup>th</sup> October 2011.*
- (ix) *The Deputy Executive Director and Adult Social Care Director left the Council on 28<sup>th</sup> February 2013.*
- (x) *The Council employed various interim and consultancy staff during 2012/13. The following interim staff earned £150,000, or more, during 2012/13:*
  - *Mrs Suzie Goodman, who held the position of Interim Head of Externally Commissioned Placements and Family Support Commissioning and Procurement, received **£160,092** (at a cost to the Council of **£163,501**); and*
  - *Mr Chris Proudfoot, who held the position of Interim Category Manager – E-Sourcing, received **£156,743** (at a cost to the Council of **£177,890**).*

### 38. Related parties

The Council is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. The intention, in making this disclosure, is to make explicit the extent to which the Council might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to bargain freely with the Council.

Related party	Declaration
UK Government	<p>The UK Government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties.</p> <p>Grants received from government departments are detailed in notes 13 and 14.</p>
Elected members	<p>Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid is</p>

## Section Two - Notes to the Financial Statements

Related party	Declaration
	<p>shown in note 35.</p> <p>During both 2011/12 and 2012/13, works and services were commissioned from companies in which certain members had an interest. Contracts were entered into in full compliance with the Council's Standing Orders and procurement rules, and were minor in nature and value.</p> <p>Cllr David John Baugh (<i>who was a County Councillor until May 2013</i>) is a trustee of the Braintree District Museum and Study Centre Trust Ltd; the Council provided <b>£8,000</b> to the Trust in 2012/13 (2011/12: <b>£30,000</b>). Cllr Baugh is also on the Board of the Braintree Community Youth Project which received <b>£8,000</b> from the Council during 2012/13.</p> <p>Cllr Mrs M J Webster (<i>who was a County Councillor until May 2013</i>) is a Director of the Rural Community Council of Essex (RCCE); the Council provided <b>£417,000</b> to the RCCE during 2012/13.</p> <p>The decisions to provide funding to these organisations were made with proper consideration of members' declarations of interest, and neither of the above members took part in any discussions or decisions relating to the giving of these amounts.</p>
Officers	Members of the Council's Corporate Leadership Team, and other officers with independent statutory powers, can influence significantly the policies of the authority.
Essex Pension Fund	<p>The Council administers the Essex Pension Fund on behalf of its employees and those of the Essex district councils and other admitted bodies.</p> <p>The Council charged <b>£1.444m</b> for administering the Fund during 2012/13, of which <b>£77,000</b> was outstanding at 31st March 2013 (2011/12: <b>£1.404m</b>, of which <b>£115,000</b> was outstanding at 31<sup>st</sup> March 2012).</p>
Essex Police Authority	The Council provided legal, pension, internal audit and coroners' services to the Essex Police Authority in 2012/13 to the value of <b>£860,000</b> (2011/12: <b>£766,000</b> ).
Essex Fire Authority	<p>The Council's Monitoring Officer is also employed as the Monitoring Officer for the Essex Fire Authority. In addition, the Council provides a pensions' service to the Authority.</p> <p>The total value of these services in 2012/13 was <b>£128,000</b> (2011/12: <b>£129,000</b>).</p>
Essex Probation Board	<p>The Council provided financial and other support services to the Essex Probation Board until 31<sup>st</sup> December 2012.</p> <p>The value of the services provided in 2012/13 was <b>£83,000</b>; no</p>

## Section Two - Notes to the Financial Statements

Related party	Declaration
	<p>amounts were outstanding at 31<sup>st</sup> March 2013 (2011/12: £266,000, of which £56,000 was outstanding at 31st March 2012).</p> <p>The Council also managed the Probation Board's surplus cash balances until 30<sup>th</sup> September 2012. The Council paid interest of <b>£4,000</b> (<i>no amounts were outstanding at 31st March 2013</i>) on the amounts borrowed (determined at the prevailing Local Authority Seven Day Rate of interest) (2011/12: £7,000, of which £1,000 was outstanding at 31<sup>st</sup> March 2012).</p>
London Probation Board	<p>The Council provided legal services to the London Probation Board during 2012/13. The charge levied for these services amounted to <b>£212,000</b>, of which <b>£12,000</b> was outstanding at 31st March 2013 (2011/12: £123,000, of which £19,000 was outstanding at 31<sup>st</sup> March 2012).</p>
Brentwood Borough Council	<p>The Council entered into an agreement with Brentwood Borough Council to create a strategic partnership to improve two tier working. This strategic partnership ran for a period of three years until 31st March 2012. For the duration of this strategic partnership, the County Council's Chief Executive, Joanna Killian, also fulfilled the role of the Chief Executive for Brentwood Borough Council, providing strategic management and coordination under the terms of a contract for services. Brentwood Borough Council paid the County Council <b>£30,000</b> per annum for this support.</p> <p>In addition, the Borough Council's former Director of Finance was an employee of the County Council, seconded to fulfil this role on a fixed term contract. Costs payable by Brentwood Borough Council in respect of this secondment amounted to <b>£107,000</b> in 2011/12.</p> <p>Finally, the Council provides Internal Audit services to the Borough Council. The charge for this service amounted to <b>£148,000</b>, of which <b>£14,000</b> was outstanding at year end (2011/12: £116,000, with <i>no amounts outstanding at year end</i>).</p>
Essex Cares Ltd	<p>Essex Cares Ltd is a 100% owned subsidiary of the Council. It provides services for people requiring care, support and assistance living in the community. Essex Cares' transactions are consolidated fully within the Council's Group Accounts, which are set out on pages 124 to 132.</p> <p>The Council commissioned services from Essex Cares Ltd to the value of <b>£33.5m</b> in 2012/13 (2011/12: £39.4m).</p> <p>The Council provided financial and other support services to Essex Cares Ltd during 2012/13; the value of the services provided in 2012/13 was <b>£219,000</b>, of which <b>£4,000</b> was outstanding at 31<sup>st</sup> March 2013 (2011/12: £259,000).</p>

## Section Two - Notes to the Financial Statements

Related party	Declaration
	<p>The Council also provides cash management support to Essex Cares Ltd. The Council has paid interest of <b>£5,000</b> (net) on the amounts it borrowed from Essex Cares Ltd; no amounts were outstanding at 31<sup>st</sup> March 2013 (2011/11: paid interest of £9,700 (net) on amounts it borrowed; £1,000 of this total was outstanding at 31st March 2012).</p> <p>The Council's former Deputy Executive Director and Adult Social Care Director became the Company Director with effect from March 2013.</p>
Essex Cultural Diversity Project Ltd	<p>One employee, and one former employee, of the Council were on the Board of Trustees for this company during 2011/12, which operates as a charity. The Council awarded funding of <b>£27,500</b> to this project in 2011/12 for the purpose of developing the arts across the county. This funding represented a significant proportion of the total income generated by the Trust in 2011/12.</p>
South East Local Enterprise Partnership	<p>The Local Enterprise Partnership has 45 members (<i>19 businesses, 19 local authorities, 3 higher / further education representatives and a chairperson</i>). The Council is a partner and the 'accountable body' for the partnership and for the Growing Places grant, which was awarded to the partnership by the Department for Communities and Local Government (CLG).</p> <p>The strategic aims of this partnership are to:</p> <ul style="list-style-type: none"> <li>• Secure the growth of the Thames Gateway;</li> <li>• Promote investment in coastal communities;</li> <li>• Strengthen the rural economy; and</li> <li>• Strengthen the competitive advantage of strategic growth locations.</li> </ul> <p>The Growing Places grant is used to establish and manage a recyclable fund to support economic growth, new enterprise and employment opportunities through the use of this fund.</p> <p>As '<b>accountable body</b>', the Council is responsible for the proper administration and financial probity of the external funds received and it has responsibility for the funding received and its application. Any inappropriate use of grant funding, or failure to meet funding regulations, may result in the repayment of grant funding to CLG.</p> <p>Grant awarded and received from CLG to date amounts to <b>£49.208m</b>. <b>£7.750m</b> of the grant was applied during 2012/13, leaving a balance of <b>£41.458m</b> unapplied at 31<sup>st</sup> March 2013).</p>

## Section Two - Notes to the Financial Statements

### 39. Partnership arrangements

The Council is involved in the following partnership scheme under Section 75 of the National Health Service Act 2006:

Partnership	Nature of partnership
Essex Drug and Alcohol partnership (EDAP)	<p>This partnership aims to reduce and prevent usage of illegal drugs and alcohol, minimise their harm, treat and rehabilitate users, reduce related offending and crime, and thereby make a contribution to community well-being.</p> <p>The partners comprise the County Council, the West, South East, South West, Mid and North East Essex PCTs, Essex Police, Essex Probation Service and HMP Chelmsford.</p> <p>West Essex PCT receives funding from the Department of Health. These funds are transferred to the County Council, as lead commissioner, under sections 75 and 256 of the National Health Services Act 2006 to support substance misuse services within Essex under the terms of the partnership.</p> <p>The County Council is the lead commissioner for the partnership and accounts for the receipt of funding and related expenditure within its Statement of Accounts. The gross income and expenditure of the partnership during 2012/13 were <b>£6.355m</b> and <b>£5.6m</b> respectively (2011/12: <b>£5.969m</b> and <b>£5.531m</b>).</p>

## Section Two - Group Accounts

### Introduction

In order to provide a full picture of the Council's economic activities and financial position, the accounting statements of the Council and Essex Cares Ltd have been consolidated. The Group Accounts are presented in addition to the Council's 'single entity' financial statements and comprise:

- Group Movement in Reserves Statement;
- Group Comprehensive Income and Expenditure Statement;
- Group Balance Sheet; and
- Group Cash Flow Statement.

These statements (*the purposes of which are explained on page 18*), together with those explanatory notes that are considered necessary in addition to those accompanying the Council's 'single entity' accounts, and accounting policies, are set out in the following pages, as detailed below.

	Page
Group Movement in Reserves Statement	125
Group Comprehensive Income and Expenditure Statement	126
Group Balance Sheet	127
Group Cash Flow Statement	128
Notes to the Group Accounts	129

## Group Movement in Reserves Statement

For the year ended 31 March 2013

	Notes	Usable Reserves						Total Unusable Reserves	Total Reserves	Analysis of Reserves		
		Earmarked General Reserves	General Fund Balance	Authority share of Profit and Loss Reserve of Subsidiary	Authority share of Pension Reserve of Subsidiary	Usable Capital Receipts Reserve	Capital Grants Unapplied Account			Total Usable Reserves	Total Authority Reserves	Authority Share of Reserves of Subsidiary
		£000	£000	£000	£000	£000	£000			£000	£000	£000
Balance at 31 March 2011		(209,109)	(31,991)	(651)	(3,076)	(20,966)	(13,009)	(278,802)	(1,035,156)	(1,313,958)	(1,310,231)	(3,727)
Movement in Reserves during 2011/12												
Deficit on Provision of Services		-	52,655	(1,229)	-	-	-	51,426	-	51,426	52,655	(1,229)
Other Comprehensive Expenditure & Income		-	-	-	6,539	-	-	6,539	178,610	185,149	178,610	6,539
Total Comprehensive Expenditure and Income		-	52,655	(1,229)	6,539	-	-	57,965	178,610	236,575	231,265	5,310
Adjustments between accounting basis & funding under regulations		-	(94,968)	2,920	(2,920)	17,791	(7,591)	(84,768)	84,768	-	-	-
Net increase/decrease before transfers to earmarked reserves		-	(42,313)	1,691	3,619	17,791	(7,591)	(26,803)	263,378	236,575	231,265	5,310
Transfers to Earmarked Reserves		(11,288)	11,288	-	-	-	-	-	-	-	-	-
(Increase) / decrease in 2011/12		(11,288)	(31,025)	1,691	3,619	17,791	(7,591)	(26,803)	263,378	236,575	231,265	5,310
Balance at 31 March 2012		(220,397)	(63,016)	1,040	543	(3,175)	(20,600)	(305,605)	(771,778)	(1,077,383)	(1,078,966)	1,583
Movement in Reserves during 2012/13												
Deficit on Provision of Services		-	66,678	(3,711)	-	-	-	62,967	-	62,967	66,678	(3,711)
Other Comprehensive Expenditure & Income		-	-	-	(1,534)	-	-	(1,534)	(105,992)	(107,526)	(105,992)	(1,534)
Total Comprehensive Expenditure and Income		-	66,678	(3,711)	(1,534)	-	-	61,433	(105,992)	(44,559)	(39,314)	(5,245)
Adjustments between accounting basis & funding under regulations		-	(138,706)	(607)	607	127	(12,709)	(151,288)	151,288	-	-	-
Net increase/decrease before transfers to earmarked reserves		-	(72,028)	(4,318)	(927)	127	(12,709)	(89,855)	45,296	(44,559)	(39,314)	(5,245)
Transfers to Earmarked Reserves		(49,493)	49,493	-	-	-	-	-	-	-	-	-
(Increase) / decrease in 2012/13		(49,493)	(22,535)	(4,318)	(927)	127	(12,709)	(89,855)	45,296	(44,559)	(39,314)	(5,245)
Balance at 31 March 2013		(269,890)	(85,551)	(3,278)	(384)	(3,048)	(33,309)	(395,460)	(726,482)	(1,121,942)	(1,118,280)	(3,662)

# Group Comprehensive Income and Expenditure Statement

For the year ended 31st March 2013

2011/12				Note	2012/13			
Gross expenditure	Income	Government grants	Net Expenditure		Gross expenditure	Income	Government grants	Net expenditure
£000	£000	£000	£000		£000	£000	£000	£000
526,521	(85,118)	(66,881)	374,522	Adult Social Care	512,240	(84,401)	(72,646)	355,193
1,292,943	(83,589)	(872,766)	336,588	Children's and Education services	1,079,334	(63,735)	(703,129)	312,470
37,373	(5,606)	(391)	31,376	Cultural and related services	27,924	(6,059)	(257)	21,608
69,189	(2,372)	(75)	66,742	Environmental and regulatory services	75,772	(2,055)	(25)	73,692
147,744	(21,691)	(6,710)	119,343	Highways, roads and transportation services	135,746	(19,959)	(8,885)	106,902
2,797	(673)	(1,764)	360	Housing services	1,814	(626)	-	1,188
17,647	(2,433)	(2,998)	12,216	Planning services	16,399	(2,782)	(1,810)	11,807
				Central Services				
7,365	(3,826)	-	3,539	Central services to the public	7,171	(4,418)	-	2,753
20,210	(185)	(74)	19,951	Corporate and democratic core	40,407	(631)	(1,365)	38,411
9,360	(15)	(43)	9,302	Non distributed costs	(21,961)	(57)	(35)	(22,053)
(72,650)	-	-	(72,650)	Exceptional Items	-	-	-	-
2,058,499	(205,508)	(951,702)	901,289	<b>Cost of services</b>	1,874,846	(184,723)	(788,152)	901,971
167,796	-	-	167,796	Other Operating Expenditure	151,506	-	-	151,506
125,151	(86,731)	-	38,420	Financing and Investment Income and Expenditure	121,179	(75,837)	-	45,342
-	(796,917)	(259,162)	(1,056,079)	Taxation and non specific grant income	-	(854,718)	(181,131)	(1,035,849)
2,351,446	(1,089,156)	(1,210,864)	51,426	<b>Deficit on Provision of Services</b>	2,147,531	(1,115,278)	(969,283)	62,970
			-	Tax expenses of subsidiary				(3)
			51,426	<b>Group deficit</b>				62,967
			(108,546)	(Surplus)/deficit arising on revaluation of fixed assets				(179,384)
			293,695	Actuarial losses on Pension Fund assets and liabilities				71,858
			185,149	<b>Other Comprehensive Income and Expenditure</b>				(107,526)
			236,575	<b>Total Comprehensive Income and Expenditure</b>				(44,559)

## Section Two - Group Accounts

### Group Balance Sheet as at 31st March 2013

31 March 2012 £000	Note		31 March 2013 £000	£000
		<b>Property, Plant and Equipment</b>		
		<b>Operational assets</b>		
1,672,150		Land and buildings	1,608,850	
54,957		Vehicles, plant and equipment	68,315	
650,213		Infrastructure	667,957	
3,314		Community assets	3,006	
		<b>Non operational assets</b>		
128,593		Assets under construction	141,135	
4,838		Surplus assets held pending disposal	17,257	
2,514,065		<b>Total Property, Plant and Equipment</b>	2,506,520	
14,312		Heritage assets	14,340	
3,831		Investment property	5,371	
1,942		Intangible assets	1,503	
1,693		Long term investments	4,638	
24,342		Long term debtors	20,885	
2,560,185		<b>Long term assets</b>		2,553,257
18,665		Short term investments	184,837	
834		Inventory	1,402	
-		Current intangible assets	45	
125,170	3	Short term debtors	108,681	
152,622		Cash and cash equivalents	70,903	
4,328		Assets held for sale	8,318	
301,619		<b>Current assets</b>		374,186
(7,039)		Short-term borrowing	(22,372)	
(251,968)	3	Creditors	(229,450)	
(18,907)		Revenue grant receipts in advance	(15,957)	
(61,147)		Capital grant receipts in advance	(44,337)	
(7,907)		Provisions (current)	(7,741)	
(3,112)		Finance lease obligations - short term	(3,275)	
(350,080)		<b>Current liabilities</b>		(323,132)
-		Long term creditors	(222)	
(26,380)		Provisions (non-current)	(25,560)	
(360,449)		Long term borrowing	(342,261)	
		Other long term liabilities		
(136,081)		Finance lease obligations - long term	(132,678)	
(17,057)		Deferred credits	(16,294)	
(894,374)		Pension liability	(965,354)	
(1,434,341)		<b>Long term liabilities</b>		(1,482,369)
1,077,383		<b>Net Assets</b>		1,121,942
		<b>Usable reserves</b>		
(220,397)		Earmarked reserves	(269,890)	
(63,016)		General Fund Balance	(85,551)	
1,040		Profit and Loss reserve	(3,278)	
543	4	Pension reserve	(384)	
(3,175)		Usable capital receipts reserve	(3,048)	
(20,600)		Capital grants unapplied	(33,309)	
(305,605)				(395,460)
		<b>Unusable reserves</b>		
(218,739)		Revaluation reserve	(370,904)	
(1,459,916)		Capital Adjustments Account	(1,331,657)	
3,301		Financial Instruments Adjustment Account	3,261	
893,831	4	Pension reserve	965,738	
(5,221)		Deferred capital receipts	(3,221)	
(2,576)		Collection Fund Adjustment Account	(6,242)	
17,542		Accumulating Compensated Absences Adjustment Account	16,543	
(771,778)				(726,482)
(1,077,383)		<b>Total Reserves</b>		(1,121,942)

## Section Two - Group Accounts

### Group Cash Flow Statement

For the year ended 31 March 2013

2011/12 £000	Notes		2012/13 £000
(87,620)	5	Operating activities	(120,192)
67,471	↓	Investing activities	188,317
(47,339)	↓	Financing activities	13,594
<b>(67,488)</b>		<b>Net (increase) / decrease in cash and cash equivalents</b>	<b>81,719</b>
85,134		Cash and cash equivalents at 1st April	152,622
152,622		Cash and cash equivalents at 31st March	70,903

## Section Two - Group Accounts

---

### Notes to the Group Accounts

#### 1. Group boundary

The Council has an interest in a number of entities, the most significant of which is Essex Cares Ltd.

Essex Cares Ltd commenced trading in July 2009 and was established by the Council in order to provide services for people living in the Community who require care, support and assistance. Essex Cares Ltd is a company limited by shares. Essex County Council owns 100% of the ordinary shares of the Essex Cares Ltd group, which are vested with the Council as a corporate shareholder. Essex Cares Ltd is a subsidiary of the Council for accounting purposes, and its results have been consolidated into the Group Accounts on a line by line basis using acquisition accounting basis of consolidation.

None of other Local Authority Trading Companies in which the Council has an interest are considered material enough, either when considered individually or in aggregate, to merit consolidation into the Council's Group Accounts.

#### 2. Accounting policies

In preparing the Group Accounts the Council has aligned the accounting policies of the company with those of the Council and made consolidation adjustments where necessary; has consolidated the financial statements of the company with those of the Council on a line by line basis; and has eliminated in full balances, transactions, income and expenses between the Council and its subsidiary.

#### 3. Debtors and creditors

The debtors and creditors included within the Group Accounts exclude any amounts owed within the 'Group'.

#### 4. Defined Benefit Pension Schemes

Note 33 of the Council's single entity accounts explain the Council's participation in the Local Government Pension Scheme. Essex Cares Ltd also participates in this scheme as an admitted body. The following paragraphs explain the Group transactions relating to retirement benefits, the Group assets and liabilities within the Scheme and the basis for estimating those assets and liabilities and the change in the Group Pension Reserve.

## Section Two - Group Accounts

The following transactions have been made in the Group Comprehensive Income and Expenditure Statement during 2012/13:

2011/12			2012/13		
Council £000	Subsidiary £000	Group £000	Council £000	Subsidiary £000	Group £000
<b>Comprehensive Income and Expenditure Statement</b>					
<b>Cost of Services</b>					
50,336	1,836	52,172	57,674	1,862	59,536
4,133	191	4,324	2,305	167	2,472
(72,650)	-	(72,650)	(25,342)	-	(25,342)
(18,181)	2,027	(16,154)	34,637	2,029	36,666
<b>Financing and Investment Income and Expenditure</b>					
100,934	1,780	102,714	94,735	1,821	96,556
(84,073)	(2,556)	(86,629)	(72,609)	(2,302)	(74,911)
16,861	(776)	16,085	22,126	(481)	21,645
(1,320)	1,251	(69)	56,763	1,548	58,311
<b>Total charge to the Surplus / Deficit on Provision of Services</b>					
<b>Other charges to the Comprehensive Income and Expenditure Statement</b>					
287,156	6,539	293,695	73,392	(1,534)	71,858
285,836	7,790	293,626	130,155	14	130,169
<b>Movement on the Authority's General Fund Balance</b>					
1,320	(1,251)	69	(56,763)	(1,548)	(58,311)
64,601	1,356	65,957	56,582	941	57,523
65,921	105	66,026	(181)	(607)	(788)

The following table provides a reconciliation of the present value of scheme liabilities:

2011/12			2012/13		
Authority £000	Subsidiary £000	Group £000	Authority £000	Subsidiary £000	Group £000
1,900,519	31,242	1,931,761	2,107,230	39,739	2,146,969
50,336	1,836	52,172	57,674	1,862	59,536
100,934	1,780	102,714	94,735	1,821	96,556
18,706	743	19,449	16,763	628	17,391
220,137	4,407	224,544	140,445	1,074	141,519
(64,043)	(460)	(64,503)	(70,995)	(1,072)	(72,067)
-	-	-	-	-	-
(123,492)	-	(123,492)	(38,220)	-	(38,220)
4,133	191	4,324	2,305	167	2,472
2,107,230	39,739	2,146,969	2,309,937	44,219	2,354,156

## Section Two - Group Accounts

The following table provides a reconciliation of the fair value of scheme assets:

2011/12				2012/13		
Council £000	Subsidiary £000	Group £000		Council £000	Subsidiary £000	Group £000
1,267,329	37,133	1,304,462	Balance as at 1 April	1,249,692	39,196	1,288,888
84,073	2,556	86,629	Expected return on scheme assets	72,609	2,302	74,911
(70,132)	(2,132)	(72,264)	Actuarial gains / (losses)	79,464	2,608	82,072
64,601	1,356	65,957	Contributions by the Council	56,582	941	57,523
18,706	743	19,449	Contributions by scheme participants	16,763	628	17,391
(64,043)	(460)	(64,503)	Benefits paid	(70,995)	(1,072)	(72,067)
(50,842)	-	(50,842)	Settlements	(12,878)	-	(12,878)
1,249,692	39,196	1,288,888	Balance as at 31 March	1,391,237	44,603	1,435,840

Finally, the Scheme history is as follows:

	Local Government Pension Scheme			Teachers' Pension Scheme		
	Present value of liabilities  £000	Fair value of scheme assets  £000	Surplus / (deficit) in the Scheme £000	Present value of liabilities  £000	Fair value of scheme assets  £000	Surplus / (deficit) in the Scheme £000
2008/09	(1,441,202)	891,470	(549,732)	-	-	-
2009/10	(1,993,204)	1,239,843	(753,361)	(42,975)	-	(42,975)
2010/11	(1,931,761)	1,304,462	(627,299)	(40,088)	-	(40,088)
2011/12	(2,146,969)	1,288,888	(858,081)	(36,293)	-	(36,293)
2012/13	(2,354,156)	1,435,840	(918,316)	(47,038)	-	(47,038)

## Section Two - Group Accounts

### 5. Cash Flow

The cash flows for operating, investing and financing activities include the following items:

2011/12 £000		2012/13 £000      £000	
<b>Cash flows from operating activities</b>			
<b>Cash inflows</b>			
(797,256)	Taxation	(851,052)	
(1,062,466)	Grants	(876,303)	
(240,146)	Sales of goods and rendering of services	(224,561)	
(3,791)	Interest received	(2,895)	
<u>(2,103,659)</u>			(1,954,811)
<b>Cash outflows</b>			
751,452	Cash paid to and on behalf of employees	616,318	
28,351	Interest paid	29,329	
1,098,078	Cash paid to suppliers of goods and services	1,088,077	
138,158	Other payments for operating activities	100,895	
<u>2,016,039</u>			<u>1,834,619</u>
<u>(87,620)</u>	<b>Net inflow of cash from operating activities</b>		<u>(120,192)</u>
<b>Cash flows from investing activities</b>			
<b>Cash inflows</b>			
(5,830)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(12,815)	
(2,689)	Proceeds from short and long term investments	-	
(127,154)	Other receipts from investing activities	(91,060)	
<u>(135,673)</u>			<u>(103,875)</u>
<b>Cash outflows</b>			
138,746	Purchase of property, plant and equipment, investment property and intangible assets	96,458	
651	Purchase of short and long term investments	168,342	
63,747	Other payments for investing activities	27,392	
<u>203,144</u>			<u>292,192</u>
<u>67,471</u>	<b>Net outflow of cash from investing activities</b>		<u>188,317</u>
<b>Cash flows generated from financing activities</b>			
<b>Cash inflows</b>			
-	Cash receipts of short and long term borrowing	-	
(50,914)	Other receipts from financing activities	(114)	
<u>(50,914)</u>			<u>(114)</u>
<b>Cash outflows</b>			
3,202	Cash payments for the reduction of liabilities related to Finance Leases (incl. PFI contracts)	3,136	
373	Other payments for financing activities	10,572	
<u>3,575</u>			<u>13,708</u>
<u>(47,339)</u>	<b>Net (inflow) / outflow of cash from financing activities</b>		<u>13,594</u>
<u>(67,488)</u>	<b>Net (increase) / decrease in cash and cash equivalents</b>		<u>81,719</u>

## Section Two - Pension Fund Accounts

---

### Introduction

The Pension Fund accounts, and accompanying notes, summarise the financial transactions and net assets related to the provision of pensions and other benefits payable to former employees of the Council, Essex district, borough and unitary councils, and for other scheduled and admitted bodies. The Pension Fund accounts are set out in the following pages, as detailed below.

	Page
<b>Fund Account</b>	<b>134</b>
<b>Net Asset Statement</b>	<b>135</b>
<b>Notes to the Pension Fund Accounts</b>	<b>136</b>

## Section Two - Pension Fund Accounts

### Pension Fund Accounts

Fund Account for the year ended 31 March 2013

2011/12 £000	Note		2012/13 £000	£000
		<b>Contributions and Benefits</b>		
		<b>Income</b>		
		Contributions receivable		
(48,558)	5	Member contributions	(47,260)	
(161,588)	5	Employers' contributions	(177,755)	
(14,192)	5	Transfers in from other Pension Funds	(13,217)	
(152)		Other income	(132)	
<u>(224,490)</u>		<b>Total income</b>		<b>(238,364)</b>
		<b>Expenditure</b>		
		Benefits payable		
141,174	5	Pensions	154,022	
33,883		Commutation of pensions & lump sum retirement benefits	36,138	
4,752		Lump sum death benefits	4,403	
		Payments to and on account of Leavers		
10		Refunds of contributions	70	
1		State scheme premiums	6	
9,946	5	Transfers out to other schemes	8,851	
1,922	7	Administration expenses	1,744	
<u>191,688</u>		<b>Total expenditure</b>		<b>205,234</b>
(32,802)		<b>Net additions from dealings with members</b>		<b>(33,130)</b>
		Returns on investments		
(60,706)	6	Investment income	(71,300)	
(30,690)	9	Profit and losses on disposal of investments and changes in market value of investments	(355,171)	
2,463	12	Taxes on income	3,106	
16,100	8	Investment management expenses	17,669	
<u>(72,833)</u>		<b>Net returns on investments</b>		<b>(405,696)</b>
(105,635)		<b>Net (increase)/decrease in the assets available for benefits during the year</b>		<b>(438,826)</b>
(3,414,012)		<b>Net assets as at 1 April</b>		<b>(3,519,647)</b>
<u>(3,519,647)</u>		<b>Net assets as at 31 March</b>		<b>(3,958,473)</b>

## Section Two - Pension Fund Accounts

### Pension Fund Accounts

Net Assets Statement as at 31 March 2013

31 March 2012 £000	Note		31 March 2013 £000	£000
	<b>9</b>	<b>Investments at market value</b>		
		Investment assets		
170,600		Fixed interest securities	179,980	
2,185,607		Equities	2,427,887	
127,446		Index linked securities	264,371	
196,040		Property	195,665	
237,865		Property unit trusts	222,930	
154,424		Private Equity	196,995	
103,002		Infrastructure	113,567	
28,181		Timber	30,972	
25,676		Active currency	25,332	
163,410		Other managed funds	175,598	
21,653		Derivative contracts	1,925	
68,868		Cash/deposits	96,481	
8,085		Other investment balances	10,570	
3,490,857				3,942,273
		Investment liabilities		
(45)		Derivative contracts	(18,010)	
(4,611)		Other investment balances	(3,191)	
(4,656)				(21,201)
3,486,201		Total Investments		3,921,072
		<b>Long term assets</b>		
11,081		Contributions due from employers		9,414
	<b>11</b>	<b>Current assets and liabilities</b>		
		Current Assets		
10,085		Cash		17,276
19,151		Contributions due from employers and other current assets		17,853
3,526,518				3,965,615
		Current liabilities		
(6,871)		Unpaid benefits and other current liabilities		(7,142)
3,519,647		Net assets of the scheme available to fund benefits		3,958,473

# Section Two - Pension Fund Accounts

---

## Notes to the Pension Fund Accounts

### 1. Background

Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2008, Essex County Council is required to maintain a pension fund (the Fund) for its employees and those of other scheduled Bodies within its area. The Fund is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. As a result the Fund now contains around 420 employing bodies. A complete list of the employers participating in the Fund is contained in the Pension Fund Annual Report & Accounts. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in private equity, infrastructure and timber through the use of limited partnerships. The Investment Steering Committee (ISC) oversees the management of these investments and meets regularly with the investment managers to monitor their performance against agreed benchmarks. The ISC in turn reports to the Essex Pension Fund Board. The Fund's Statement of Investment Principles is contained in the Pension Fund Annual Report & Accounts.

### 2. Basis of preparation

The financial statements have been prepared in accordance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008, the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 issued by CIPFA which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector and with the guidelines set out in the Statement of Recommended Practice 2012/13(SORP) and the Financial Reports of Pension Schemes Statement of Recommended Practice (revised May 2007).

The Pension Fund publishes a number of statutory documents, including a Statement of Investment Principles, a Funding Strategy Statement and Statements of Compliance. Copies can be obtained by contacting the Council's Investments team or alternatively are available from [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk).

The Pension Fund Financial Statement of Accounts summarises the transactions for the 2012/13 financial year and its position as at 31 March 2013. The accounts do not reflect obligations to pay pensions and benefits that fall due after the financial year. However, a statement calculating the Fund's actuarial present value of promised retirement benefits as at 31 March 2013 using IAS19 methodology is included in the notes to the accounts and can be found at Note 3.2.

## Section Two - Pension Fund Accounts

---

### 3. Actuarial valuation

The contributions payable for 2012/13 were determined by the 2010 Actuarial Valuation.

#### 3.1 Actuarial Valuation 2010

An actuarial valuation of the Essex Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014. The results of the valuation are contained within the Statement by the Consulting Actuary of the Pension Fund Report and Accounts.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of **£3,085m** represented **71%** of the Funding Target liabilities of **£4,319m** at the valuation date. The valuation also showed that a common rate of contribution of **12.2%** of Pensionable Pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit could be eliminated by an average additional contribution rate of **9.2%** of Pensionable Pay for 20 years. This would imply an average employer contribution rate of **21.4%** of Pensionable Pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the Actuary's statement. In addition to the certified contributions, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method. Full details of the actuarial assumptions are contained within the full valuation report that is available from [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk).

## Section Two - Pension Fund Accounts

The main financial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	Past service liabilities (funding target) <i>Rate per annum</i>	Future service liabilities (common contribution rate) <i>Rate per annum</i>
Rate of discount		
Pre retirement	7.00%	6.75%
Post retirement	5.50%	6.75%
Rate of pay increases	4.50%	4.50%
Rate of increase to pensions in payment (in excess of guaranteed minimum pension)	3.00%	3.00%

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contributions payable by the individual employers will be revised with effect from 1 April 2014.

### 3.2 IAS 19 Actuarial present value of promised retirement benefits

Many of the Fund's employers comply with the accounting disclosure requirements of either IAS 19 or FRS 17. These accounting standards specify the approach taken when calculating liabilities for disclosure in an employer's annual accounts. IAS 19/FRS 17 does not determine the employer contribution.

The Actuarial Valuation (described above) determines employer contributions. The assumptions and methodology used are set out in the Actuarial Valuation report and the Funding Strategy Statement are not determined by IAS 19/FRS 17.

### 3.3 IAS 26 – Total Fund: Actuarial present value of promised retirement benefits

Separate to the Actuarial Valuation, IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed. For this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used in the Actuarial Valuation for funding purposes.

In order to assess the present value of the Fund's obligation on this basis, the Actuary, allowing for the different financial assumptions required under IAS 19 has a roll forward approach in

## Section Two - Pension Fund Accounts

---

valuing the Fund's liabilities which were last calculated at the triennial actuarial valuation as at 31 March 2010.

Liabilities are valued using a discount rate based on corporate bond yields. In previous years the Actuary used the yield on the iBoxx AA rated over 15 year corporate bond index. At 31 March 2013 the Actuary has used the point of the Merrill Lynch AA-rated corporate bond curve which is closest to the duration of the Fund's liabilities.

The duration of the Fund's liabilities is the weighted average time to pay each future expected cashflow for each member. This is based on the data from the last actuarial valuation. The Fund's liability duration as at 31 March 2013 is 19 years which in turn means a discount rate of **4.3%** per annum (4.6% as at 31 March 2012). The value of the Fund's promised retirement benefits as at 31 March 2013 was **£6,585m** (£5,918m as at 31 March 2012).

Similar calculations were carried out as per the last actuarial valuation date of 31 March 2010, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where a rate of 5.6% per annum was used. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was **£4,720m**.

### 4. Accounting conventions

#### 4.1 Fund Account – revenue recognition

##### 4.1.1 Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary in the payroll period to which it relates.

Employers' augmentation contributions and financial strain contributions are accounted for in the period in which the liability arises. Any amounts due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term assets.

##### 4.1.2 Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Scheme Regulations (see Note 5 which commences on page 146).

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and included in Transfers in (see Note 5 which commences on page 146).

## Section Two - Pension Fund Accounts

---

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

### 4.1.3 Investment Income

#### Dividend income

Dividend income is recognised in the Fund Account on the date the shares are quoted ex-dividend. Any amounts not received by 31 March are disclosed in the Net Asset Statement as other investment balances due. Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line item on the face of the Fund Account, and a more detailed breakdown can be found in Note 12 (page 164).

#### Income from fixed interest, index linked securities, cash and short term deposits

Income from fixed interest, index linked securities, cash and short-term deposits is recognised in the Fund Account on an accruals basis, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction cost or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

#### Income from other investments

Income from other investments is accounted for on an accruals basis. Any amount not received by the end of the reporting period is disclosed in the Net Asset Statement under other investment balances.

#### Property related income

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a straight line basis over the term of the lease.

#### Change in market value of investments

The change in market value of investments is recognised as income during the year and comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

## 4.2 Fund Account – Expense recognition

### 4.2.1 Benefits Payable

Under the regulations, retirees can receive a lump sum retirement grant in addition to their annual pension. Pensions and lump sum retirement grants are accounted for from the date of retirement. When a member chooses to take a greater retirement grant in return for reduced

## Section Two - Pension Fund Accounts

---

pension these lump sums are accounted for on an accruals basis from the date that the option is exercised. Any amounts due but not paid are disclosed in the Net Asset Statement as current liabilities.

Other benefits are accounted for on the date the member leaves the Fund or upon death.

### 4.2.2 Taxation

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax accounted for as a fund expense as it arises (see note 12).

As Essex County Council is the administering authority for the Fund, VAT input tax is recoverable on all fund activities including expenditure on investments and property expenses.

### 4.2.3 Administration expenses

Administration expenses are accounted for on an accruals basis. All expenses are recognised net of any recoverable VAT. All relevant staff costs including management, accommodation and other overhead costs has been charged direct to the Fund on the basis of time spent on investment related matters and pension administration. In 2012/13 this totalled **£1.438m** (2011/12 £1.299m).

### 4.2.4 Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers and custodian are agreed in their mandates governing their appointments. Broadly these are based on the market value of investments under their management and therefore increase or reduce as the value of investments change. In addition the Fund has negotiated with the following managers that an element of their fee be performance related subject to them reaching a trigger point:

- First State Investments (UK) Limited
- Marathon Asset Management Limited
- FIL Pensions Management

Performance related fees totalled **£1.466m** in 2012/13 (£0.423m in 2011/12).

When an investment manager's fee invoice has not been received by the balance sheet date a creditor has been raised and the actual invoice amount is shown in current liabilities.

## Section Two - Pension Fund Accounts

---

The cost of obtaining investment advice from external consultants is included in investment management charges.

### 4.3 Net Asset Statement

- **Financial Assets**

Financial assets are included in the Net Asset Statement on a fair value basis as at the financial year end date of 31 March. The financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in fair value of the asset are recognised by the Fund in the Fund Account. Acquisition costs are included in the purchase cost of investments.

- **Contingent Assets**

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the Council's control.

Contingent assets are not recognised in the financial statements but are disclosed as a note to the accounts where an inflow of economic benefits or service potential is probable and can be reliably measured.

Contingent assets are assessed continually. If it becomes virtually certain that an inflow of economic benefits or service potential will arise, and the asset's value can be reliably measured, a debtor and the related revenue are recognised in the financial statements.

- **Valuation of investments**

The value of investments as shown in the Net Asset Statement has been determined as outlined in the following paragraphs.

- **Market Quoted Investments**

In the majority of cases, market quoted equity investments for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

- **Unquoted Investments**

The fair value of investments for which market quotations are not readily available is determined as follows:

- For unquoted equity and private equity limited partnerships investments are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers. There is usually a time delay in receiving information from the private equity fund managers. In general these are valued as at 31 March 2013, and are compiled in accordance with the guidelines issued by the British Venture Capital Association or an equivalent body. In a few cases an estimate of the valuation at 31 March 2013 has been

## Section Two - Pension Fund Accounts

---

made. The Fund amends the 31 December 2012 valuation for payments made to and payments received from the private equity managers in the period 1 January 2013 to 31 March 2013.

- Investments in unquoted property, timber and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.

### ▪ **Directly held investments**

Directly held investments include investments in limited partnerships, shares in unlisted companies, trust and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pooled or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or standards set by the constituent documents of the pool or the management agreement.

### ▪ **Unit trusts and managed funds**

Unit trusts and managed funds are valued at bid prices provided by the relevant fund managers, which reflect the market value of the underlying investments. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

### ▪ **Value of fixed interest investments**

The value of fixed interest investments in the Fund's investment portfolio are recorded at net market value based on their current yield i.e. excludes interest earned but not paid over at the Fund year-end, which is included separately within accrued investment income and disclosed within note 9.

### ▪ **Derivatives**

- The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investments activities. The Fund does not hold derivatives for speculative purposes.
- Derivative contracts assets are held at fair value bid price and liabilities are fair valued at offer prices. Changes in the fair value of derivatives are included in the change in market value (Note 9).
- The value of futures contracts is determined using exchange prices published by the relevant futures exchange e.g.: LIFFE – London International Financial Futures Exchange at the reporting date. Amounts due from or owed to the broker are amounts outstanding in respect of the initial margin and variation margin.
- Forward foreign exchange contracts outstanding at year end are stated at fair value, which is determined as the loss or gain that would arise if the outstanding contract was required to be settled on 31 March.

## Section Two - Pension Fund Accounts

---

- **Dividends, Interest and Foreign Currencies**

Dividend, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

- **Direct Property Investments**

Direct property investments have been valued, at open market value as at 31 March 2013, by Jones Lang LaSalle, Chartered Surveyors. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

- **Cash and Cash Equivalents**

Cash comprises of cash in hand and demand deposits. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

- **Financial Liabilities**

The Fund recognises financial liabilities at fair value as at the financial year end date of 31 March. A financial liability is recognised in the Net Asset Statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

- **Contingent Liabilities**

Contingent liabilities are possible obligations that arise from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Pension Fund's control.

Contingent liabilities are not recognised in the financial statements, but are disclosed as a note to the accounts, unless the possibility of an outflow of resources is remote.

Contingent liabilities are assessed continually. If an outflow of resources becomes probable, a provision is recognised.

- **Financial Instruments**

Financial assets are recognised by the Fund on the Balance Sheet only when goods or services have been provided or rendered to a third party. Financial liabilities are recognised when the goods or services ordered from a third party have been received by the Fund and the third party has performed its contractual obligations.

The Fund currently only has liabilities carried at amortised cost and the carrying amount for instruments that will mature within the next twelve months from the balance sheet date is assumed to equate to the fair value.

The fair values of loans and receivables at 31st March have been reviewed and were assessed as being the same as the carrying amounts in the balance sheet. Assets are carried in the balance sheet at fair value. The values are based on the bid price.

## Section Two - Pension Fund Accounts

---

When an asset or liability is translated at balance sheet date the gain / loss is taken as unrealised but when the asset or liability is settled (i.e. received / paid) the gain / loss becomes realised.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

- **Critical judgements in applying accounting policies**

- **Use of Financial Instruments**

The Fund uses derivatives financial instruments to manage its exposure to specific risks arising from its investments. In applying the accounting policies set out within the notes that accompany the financial statements the Pension Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the financial statements are based around determining a fair value for the alternative investments shown in the Net Asset Statement. It is important to recognise valuations for these types of investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements that involve many factors.

- **Unquoted private equity**

Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities as at 31 March 2013 was **£197.0m** (£154.4m as at 31 March 2012).

- **Infrastructure**

Overseas infrastructure values are determined in accordance with generally accepted valuation principles in compliance with article 5 (3) of the Luxembourg law of 15 June 2004 on investment companies in risk capital. The infrastructure portfolio managed by M&G Investments is valued by the investment manager using guidelines set out by the International Private Equity and Venture Capital (IPEV) Valuation Guidelines.

The value of infrastructure as at 31 March 2013 was **£113.6m** (£103m as at 31 March 2012).

- **Timber**

Timber valuations are determined by independent appraisers that typically estimate fair market values in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and standards of professional appraisal practice that prevail in the countries where assets are located. The value of timber as at 31 March 2013 was **£31m** (£28.1m as at 31 March 2012).

- **Pension fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. This estimate is subject to significant variances based on changes to the underlying assumptions.

## Section Two - Pension Fund Accounts

As permitted under IAS26, the Fund has opted to disclose the actuarial present value of the promised retirement benefits by way of a note to the Net Asset Statement. This is shown in Note 3.3.

### 5. Membership activities

#### 5.1 Membership

31 March 2012		31 March 2013
42,315	Contributors	45,001
38,101	Deferred pensioners	42,092
32,269	Pensioners	33,873

Deferred pensioners are former employees who have chosen not to transfer their pension rights.

#### 5.2 Pension benefits payable

2011/12 £000		2012/13 £000
52,888	Administering Authority	57,296
74,591	Scheduled Bodies	81,284
6,729	Admitted Bodies	7,327
3,684	Community Admission Bodies	4,075
2,872	Transferee Admission Bodies	3,580
410	Resolution Bodies	460
<u>141,174</u>		<u>154,022</u>

## Section Two - Pension Fund Accounts

### 5.3 Contributions receivable

#### 5.3.1 By category

Contributions receivable from employers are set out below:

2011/12		2012/13
£000		£000
86,582	Normal	93,082
2	Augmentation	-
66,288	Deficit	78,669
8,716	Other	6,004
<b>161,588</b>		<b>177,755</b>

Other employers' contributions relate to payments for the cost of early retirements.

#### 5.3.2 By type

2011/12			2012/13	
Member	Employer		Member	Employer
£000	£000		£000	£000
16,646	53,696	Administering Authority	15,400	50,062
24,421	84,396	Scheduled Bodies	24,583	87,854
1,352	6,322	Admitted Bodies	1,006	20,764
3,509	10,664	Community Admission Bodies	3,628	10,633
2,416	5,869	Transferee Admission Bodies	2,422	7,794
214	641	Resolution Bodies	221	648
<b>48,558</b>	<b>161,588</b>		<b>47,260</b>	<b>177,755</b>

During 2012/13 Greenfields paid **£689,000** towards the Actuarial deficiency. During 2011/12 no lump sum contributions in respect of the Actuarial deficiency were received.

## Section Two - Pension Fund Accounts

### 5.4 Transfers in from other pension funds

2011/12 £000		2012/13 £000
-	Group transfers	336
14,192	Individual transfers	12,881
<b>14,192</b>	<b>Total</b>	<b>13,217</b>

A Group transfer of **£336,000** was received in 2012/13. No amounts were receivable in respect of group transfers from other schemes in 2011/12.

### 5.5 Transfers out to other schemes

2011/12 £000		2012/13 £000
9,946	Individual transfers	8,851
<b>9,946</b>	<b>Total</b>	<b>8,851</b>

No amounts were payable in respect of group transfers to other schemes during 2011/12 and 2012/13.

## Section Two - Pension Fund Accounts

### 6. Investment income

#### 6.1 By Type

2011/12 £000		2012/13 £000
34,771	Dividends from equities	37,863
2,978	Income from index linked securities	2,558
8,469	Income from pooled property investments	7,547
10,884	Net rent from properties	13,131
677	Interest from cash deposits	587
952	Other	8,660
<b>58,731</b>	<b>Total investment income showing net property rent</b>	<b>70,346</b>
	Add back:	
1,975	Property operating expenses	954
<b>60,706</b>	<b>Total investment income showing gross property rent</b>	<b>71,300</b>

In line with latest best practice guidelines, the note that accompanies investment income requires the Fund to show rent from property net of other property income and operating property expenses. However rent from property which is included under 'investment income' in the Fund Account is shown on a gross basis.

#### 6.2 Investment property net rental

2011/12 £000		2012/13 £000
12,093	Rental Income from investment property	13,783
(1,209)	Direct operating expenses arising from investment property	(661)
<b>10,884</b>	<b>Total</b>	<b>13,122</b>

## Section Two - Pension Fund Accounts

### 6.3 Movement in the fair value of investment properties

2011/12			2012/13		
Freehold £000	Leasehold £000	Total £000	Freehold £000	Leasehold £000	Total £000
120,075	27,445	147,520	153,260	42,780	196,040
36,885	16,401	53,286	416	7,541	7,957
(5,958)	-	(5,958)	(100)	(21)	(121)
2,258	(1,066)	1,192	(7,236)	(975)	(8,211)
<b>153,260</b>	<b>42,780</b>	<b>196,040</b>	<b>146,340</b>	<b>49,325</b>	<b>195,665</b>
Balance at start of the year			Balance at end of the year		
Additions			Disposals		
Net gain/loss on fair value					

### 7. Administrative expenses

2011/12 £000	2012/13 £000
1,299 Administration and Processing	1,438
253 Actuarial Fees	114
64 Audit fees	51
301 Legal fees	134
5 Other professional fees	7
<b>1,922</b>	<b>1,744</b>

The administration and processing expenses represent a proportion of relevant officers' salaries on the basis of time spent on pensions' administration and investment matters.

### 8. Investment management expenses

2011/12 £000	2012/13 £000
13,377 Management fees	15,841
471 Custody fees	357
58 Performance monitoring services	29
464 Advisory fees	459
1,730 Other	983
<b>16,100</b> <b>Total</b>	<b>17,669</b>

## Section Two - Pension Fund Accounts

### 9. Investments

#### 9.1 Value of investments held by managers

The value of investments held by each manager together with investments in private equity, infrastructure, financing and shareholder activism partnerships on 31 March was as follows:

2012			2013		
£m	%		£m	%	
213	6.1	Alliance Bernstein	-	-	
463	13.3	Aviva Investors	465	11.9	
290	8.3	Baillie Gifford and Co	320	8.2	
240	6.9	FIL Pensions Management	281	7.2	
192	5.5	First State Investments (UK) Ltd	232	5.9	
171	4.9	Goldman Sachs Asset Management International	180	4.6	
1	-	Goverance for Owners European Focus Fund	-	-	
2	0.1	Hermes UK Smaller Companies Focus Fund	3	0.1	
1,121	32.2	Legal and General Investment Management	1,598	40.7	
21	0.6	Legal and General Investment Management (Currency)	(16)	-0.4	
283	8.1	Marathon Asset Management Ltd	301	7.7	
26	0.7	Mellon Capital Management	25	0.6	
147	4.2	M&G Investments Alpha Opportunities	156	4.0	
67	1.9	M&G Investments Infracapital	72	1.8	
14	0.4	M&G Investments Financing Fund	16	0.4	
36	1.1	Partners Group Management II S.à r.l	43	1.1	
171	4.9	Private Equity/Other	214	5.4	
28	0.8	Stafford Timberland Limited	31	0.8	
3,486	100.0		3,921	100.0	

## Section Two - Pension Fund Accounts

### 9.2 Movement in the market value of investments

#### 9.2.1 Reconciliation of movements in investments and derivatives for the year ended 31 March 2012

The table below shows the movement in the market value of the investments held during the financial year, including profits and losses realised on the sales of investments since 1 April 2011:

	Value at 1 April 2011  £000	2011/12 Movement					Value at 31 March 2012  £000
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
		£000	£000	£000	£000	£000	
<b>Fixed interest securities</b>							
UK government	57,344	-	(31,718)	(30,000)	4,374	-	-
UK corporate	168,675	-	-	-	1,925	-	170,600
<b>Equities</b>							
UK	343,945	59,515	1,402	(39,127)	3,006	-	368,741
Overseas	1,774,914	462,777	(2,132)	(385,838)	(32,855)	-	1,816,866
<b>Index linked securities</b>	171,839	49,596	(30,898)	(94,797)	31,706	-	127,446
<b>Properties</b>							
Direct property							
UK properties freehold	120,075	36,885	-	(5,958)	2,258	-	153,260
UK properties leasehold	27,445	16,401	-	-	(1,066)	-	42,780
Property unit trusts	234,688	8,496	-	(4,967)	(352)	-	237,865
<b>Private equity</b>							
UK	629	65	-	(283)	(160)	-	251
Overseas	125,635	51,131	-	(32,157)	9,564	-	154,173
<b>Infrastructure</b>							
UK	53,913	10,234	-	(2,358)	4,973	-	66,762
Overseas	12,001	27,126	-	(2,592)	(295)	-	36,240
<b>Timber</b>	-	23,526	-	-	4,655	-	28,181
<b>Active currency</b>	58,341	-	(22,935)	-	(9,730)	-	25,676
<b>Other managed funds</b>							
UK	151,913	12,291	-	(1,205)	(312)	-	162,687
Overseas	4,388	-	-	(2,728)	(937)	-	723
<b>Derivative future contracts</b>	22	-	-	-	(1)	-	21
<b>Cash</b>							
Cash deposits held at the custodian/other							
Sterling	40,393	-	22,935	-	-	(22,377)	40,951
Foreign currency	36,179	-	-	(13,773)	13,773	(8,591)	27,588
Cash deposits held in the margin account							
Sterling	109	-	-	-	-	167	276
Foreign currency	56	-	-	(164)	164	(3)	53
	3,382,504	758,043	(63,346)	(615,947)	30,690	(30,804)	3,461,140
<b>Other investment balances</b>							
Assets							
Amounts receivable for sales of investments	8,082						2,591
Investment income due	5,265						5,494
Liabilities							
Amounts payable for purchase of investments	(9,281)						(4,484)
Investment withholding tax payable	(148)						(127)
<b>Derivative pending foreign currency contracts</b>							
Assets	-						21,632
Liabilities	(3,060)						(45)
	3,383,362						3,486,201

## Section Two - Pension Fund Accounts

### 9.2.2 Reconciliation of movements in investments and derivatives for the year ended 31 March 2013

The table below shows the movement in the market value of the investments held during the financial year, including profits and losses realised on the sales of investments since 1 April 2012.

	Value at 1 April 2012	2012/13 Movement					Value at 31 March 2013
		Purchases	Net Transfers	Sale Proceeds	Change in Market Value	Cash Movement	
	£000	£000	£000	£000	£000	£000	£000
<b>Fixed interest securities</b>							
UK corporate	170,600	-	-	-	9,380	-	179,980
<b>Equities</b>							
UK	368,741	54,811	(410)	(43,023)	61,151	-	441,270
Overseas	1,816,866	419,231	(4,103)	(513,328)	267,951	-	1,986,617
<b>Index linked securities</b>	127,446	81,105	47,789	(17,295)	25,326	-	264,371
<b>Properties</b>							
Direct property							
UK properties freehold	153,260	416	-	(100)	(7,236)	-	146,340
UK properties leasehold	42,780	7,541	-	(21)	(975)	-	49,325
Property unit trusts	237,865	1,702	-	(4,570)	(12,067)	-	222,930
<b>Private equity</b>							
UK	251	-	-	(38)	169	-	382
Overseas	154,173	52,040	-	(35,402)	25,802	-	196,613
<b>Infrastructure</b>							
UK	66,762	2,208	-	(4,157)	6,781	-	71,594
Overseas	36,240	6,759	-	(2,024)	998	-	41,973
<b>Timber</b>	28,181	2,161	-	-	630	-	30,972
<b>Active currency</b>	25,676	-	-	-	(344)	-	25,332
<b>Other managed funds</b>							
UK	162,687	6,955	-	(721)	6,677	-	175,598
Overseas	723	-	-	(631)	(92)	-	-
<b>Derivative future contracts</b>	21	-	-	-	(21)	-	-
<b>Cash</b>							
Cash deposits held at the custodian/other							
Sterling	40,951	-	7,017	-	-	20,471	68,439
Foreign currency	27,588	-	-	28,630	(28,630)	454	28,042
Cash deposits held in the margin account							
Sterling	276	-	-	-	-	(276)	-
Foreign currency	53	-	-	329	(329)	(53)	-
	3,461,140	634,929	50,293	(592,351)	355,171	20,596	3,929,778
<b>Other investment balances</b>							
Assets							
Amounts receivable for sales of investments	2,591						4,156
Investment income due	5,494						6,414
Liabilities							
Amounts payable for purchase of investments	(4,484)						(2,990)
Investment withholding tax payable	(127)						(201)
<b>Derivative pending foreign currency contracts</b>							
Assets	21,632						1,925
Liabilities	(45)						(18,010)
	3,486,201						3,921,072

For 2012/13, the total transaction costs were **£1.5m** (2011/12: £1.2m)

## Section Two - Pension Fund Accounts

### 9.3 Analysis of investments by asset type

An analysis of investment assets at 31 March is shown below.

2012 £000		2013 £000
	<b>Fixed interest securities</b>	
170,600	UK quoted	179,980
	<b>Equities</b>	
77,437	UK quoted	89,363
1,114,687	Overseas quoted	1,005,806
291,304	UK unit trusts	351,907
702,179	Overseas unit trusts	980,811
127,446	<b>Index linked securities:</b> UK public sector quoted	264,371
	<b>Property</b>	
153,260	UK properties (freehold)	146,340
42,780	UK properties (leasehold)	49,325
237,865	Property unit trusts	222,930
	<b>Private equity</b>	
251	UK unquoted	382
154,173	Overseas unquoted	196,613
	<b>Infrastructure</b>	
66,762	UK unquoted	71,594
36,240	Overseas unquoted	41,973
28,181	<b>Timber:</b> Overseas unquoted	30,972
25,676	<b>Active currency:</b> UK unquoted	25,332
	<b>Other managed funds</b>	
162,687	UK unquoted	175,598
723	Overseas unquoted	-
	<b>Derivative contracts</b>	
21	<b>Assets:</b> Derivative future contracts	-
21,632	<b>Assets:</b> Derivative pending foreign currency contracts	1,925
(45)	<b>Liabilities:</b> Derivative pending foreign currency contracts	(18,010)
	<b>Cash deposits</b>	
	<b>Cash deposits held at custodian/other</b>	
40,951	Sterling	68,439
27,588	Foreign currency	28,042
	<b>Cash deposits held in margin account at GSAM</b>	
276	Sterling	-
53	Foreign currency	-
	<b>Other investment balances</b>	
	<b>Assets</b>	
2,591	Amounts receivable for sales of investments	4,156
5,494	Investment Income Due	6,414
	<b>Liabilities</b>	
(4,484)	Amounts payable for purchase of investments	(2,990)
(127)	Investment withholding tax payable	(201)
<b>3,486,201</b>	<b>Value at 31 March</b>	<b>3,921,072</b>

## Section Two - Pension Fund Accounts

### 9.4 Analysis of pooled investments representing 5% or more of net assets

The Fund holds the following investments in unit trusts/pooled vehicles at 31 March which are in excess of 5% of the value of the Fund:

2012		Unit trust / pooled vehicle	2013	
£000	%		£000	%
236,344	6.7	Legal and General - North America Equity Index	373,996	9.4
291,304	8.3	Legal and General - UK Equity Index	351,907	8.9
224,240	6.4	Legal and General - Europe (Ex UK) Equity Index	298,158	7.5
-	-	Legal and General - Japan Equity Index	204,579	5.2

### 9.5 Analysis of single investments 5% or more of any asset types

The Fund holds the following single investments at 31 March which are in excess of 5% of any asset class or type of security:

2012		Asset type / Asset name	2013	
£000	%		£000	%
UK QUOTED EQUITIES				
-	-	Unilever Plc	13,959	15.6%
5,411	7.0%	Sabmiller plc	9,511	10.6%
-	-	Aggreko	5,962	6.7%
11,718	15.1%	BP Plc	-	-
6,354	8.2%	Astrazeneca	-	-
5,574	7.2%	Vodafone Group	-	-
UK INDEX LINKED BONDS				
8,156	6.4%	UK (Govt) Treasury IL Stock 2.5% 16 April 2020	18,997	7.2%
7,870	6.2%	UK (Govt) Treasury IL Stock 1.875% 22 Nov 2022	18,709	7.1%
-	-	Uk(Govt) Treasury IL Stock 2.5% 17 July 2024	18,168	6.9%
7,976	6.3%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2027	17,465	6.6%
6,740	5.3%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2055	15,539	5.9%
6,644	5.2%	UK (Govt) Treasury IL Stock 1.125% 22 Nov 2037	14,951	5.7%
6,541	5.1%	UK (Govt) Treasury IL Stock 2.0% 26 Jan 2035	14,625	5.5%
6,621	5.2%	UK (Govt) Treasury IL Stock 1.250% 22 Nov 2032	14,534	5.5%
7,545	5.9%	UK (Govt) Treasury IL Stock 2.5% 17 July 2024	-	-
PROPERTY				
15,650	8.0%	48-49 Chancery Lane, London	15,575	8.0%
13,425	6.8%	55-57 Dean Street, London	13,425	6.9%
11,200	5.7%	734-736 Seven Sisters Road, London	11,200	5.7%
11,400	5.8%	971 Great West Road, Brentford	11,060	5.7%
10,600	5.4%	74-82 Western Road, Brighton	10,450	5.3%

## Section Two - Pension Fund Accounts

2012		Asset type / Asset name	2013	
£000	%		£000	%
PROPERTY UNIT TRUSTS				
25,486	10.7%	Aviva Investors Property Fund	24,891	11.2%
20,833	8.8%	Lothbury Property Fund	20,959	9.4%
15,545	6.5%	Blackrock UK Property Fund	15,165	6.8%
-	-	Standard Life UK Shopping Centre	11,706	5.3%
-	-	Standard Life Property Fund Closed	11,244	5.0%
14,107	5.9%	Quercus Healthcare Property	-	-
12,356	5.2%	Threadneedle Investment Strategic Property Fund	-	-
PRIVATE EQUITY				
7,700	5.0%	New Mountain Partners	11,969	6.1%
9,868	6.4%	Apollo Overseas Partners VII	11,454	5.8%
-	-	Providence Debt Opportunity Fund	11,140	5.6%
12,439	8.0%	Warburg Pincus Private Equity VIII	9,853	5.0%
12,185	7.9%	CVC European E P Tandem Fund	-	-
9,954	6.4%	OHA Strategic Credit Fund li (Offshore), L.P	-	-
9,625	6.2%	Kohlberg TE Investors VI Lp	-	-
INFRASTRUCTURE				
66,762	64.8%	Infracapital Partners	71,594	63.0%
32,447	31.5%	Partners Group Global Infrastructure 2009 S.C.A., SICAR	37,905	33.4%
TIMBER				
28,181	100.0%	Stafford Timberland	30,972	100.0%
ACTIVE CURRENCY				
25,676	100.0%	Mellon Offshore Currency Opp Enhanced UK Equitized Fund	25,332	100.0%
OTHER MANAGED FUNDS				
147,102	90.0%	M&G Alpha Opportunities Fund	156,070	88.9%
13,861	8.5%	M&G Financing Fund	16,213	9.2%
DERIVATIVE CONTRACTS				
21	100.0%	S&P 500 Emini Index Futures Exp June 12	-	-
CASH				
35,060	50.9%	BNP Paribas Investment Partners GBP	41,422	42.9%
-	-	Northern Trust Liquidity Fund GBP	24,007	24.9%
-	-	Northern Trust Liquidity Fund US\$	16,645	17.3%
11,181	16.2%	BNY Mellon Euro Liquidity Fund	-	-
5,724	8.3%	BNP Paribas Investment Partners EURO	5,695	5.9%
5,535	8.0%	BNY Mellon Sterling Liquidity Fund	-	-

## Section Two - Pension Fund Accounts

### 9.6 Derivative contracts

#### 9.6.1 Objectives and policies for holding derivatives

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment agreement agreed between the Fund and the various investment managers.

#### 9.6.2 Futures

A breakdown of outstanding exchange traded future contracts is as follows

31 March 2012			31 March 2013	
Economic Exposure £000	Market Value £000		Economic Exposure £000	Market Value £000
		<b>Assets</b>		
1,221	21	Overseas Equities Futures - Less than one year	-	-
		<b>Liabilities</b>		
-	-	Overseas Equities Futures - Less than one year	-	-
1,221	21	<b>Net futures</b>	-	-

#### 9.6.3 Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, **50.6%** (57.9% as at 31 March 2012) of the Fund's portfolio is in overseas stock markets as at 31 March 2013. To reduce the volatility associated with fluctuating currency rates (currency risk) the fund has a passive currency programme in place which is managed by Legal and General Investment Management. The Fund hedges 50% of the US Dollar, Euro and Yen exposure within the portfolios managed by the growth managers.

## Section Two - Pension Fund Accounts

### 9.6.4 Analysis of open forward currency contracts as at 31 March 2012

Settlement	Currency Bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000
<b>Due within one month</b>						
Up to one month	GBP	10,375	AUD	15,796	134	
Up to one month	GBP	10,153	CAD	16,065	93	
Up to one month	GBP	13,994	CHF	20,586		(261)
Up to one month	GBP	88,451	EUR	105,658	381	
Up to one month	USD	186	EUR	140		-
Up to one month	AUD	15,796	GBP	10,335		(94)
Up to one month	CAD	16,065	GBP	10,145		(85)
Up to one month	CHF	20,586	GBP	14,324		(69)
Up to one month	EUR	65,728	GBP	55,151		(368)
Up to one month	JPY	5,878,158	GBP	44,523	182	
Up to one month	SEK	71,585	GBP	6,766		(14)
Up to one month	THB	534	GBP	11		-
Up to one month	USD	230,311	GBP	144,836		(688)
Up to one month	GBP	121	HKD	1,510		-
Up to one month	GBP	49,211	JPY	5,863,016	4,621	
Up to one month	GBP	6,676	SEK	71,585		(76)
Up to one month	GBP	149,224	USD	231,182	4,532	
Up to one month	GBP	15	KRW	27,142	15	
<b>Due within one to six months</b>						
One to six months	GBP	33,115	AUD	50,017	910	
One to six months	GBP	33,584	CAD	53,174	315	
One to six months	GBP	48,998	CHF	70,164	347	
One to six months	GBP	185,092	EUR	220,197	1,407	
One to six months	CHF	2,259	GBP	1,568		(2)
One to six months	EUR	13,692	GBP	11,448		(26)
One to six months	GBP	169,190	JPY	21,466,224	5,751	
One to six months	GBP	24,025	SEK	254,232	97	
One to six months	GBP	442,244	USD	699,102	4,485	
<b>Forward currency contracts unsettled as at 31 March 2012</b>					<b>23,270</b>	<b>(1,683)</b>
<b>Net forward currency contracts as at 31 March 2012</b>						<b>21,587</b>

### 9.6.5 Analysis of open forward currency contracts as at 31 March 2013

Shown overleaf.

## Section Two - Pension Fund Accounts

Settlement	Currency Bought	Local value 000	Currency sold	Local value 000	Asset value £000	Liability value £000
<b>Due within one month</b>						
Up to one month	GBP	12,979	AUD	18,904	-	(86)
Up to one month	GBP	12,844	CAD	19,813	2	-
Up to one month	GBP	17,182	CHF	24,706	-	-
Up to one month	GBP	60	CHF	42	-	-
Up to one month	GBP	63	CHF	44	-	-
Up to one month	GBP	79,992	EUR	67,647	-	(226)
Up to one month	AUD	(18,904)	GBP	(12,979)	-	(738)
Up to one month	CAD	(19,813)	GBP	(12,844)	-	(341)
Up to one month	CHF	(24,706)	GBP	(17,182)	-	(537)
Up to one month	DKK	(33)	GBP	(4)	-	-
Up to one month	EUR	(67,592)	GBP	(79,927)	-	(2,520)
Up to one month	HKD	(47)	GBP	(4)	-	-
Up to one month	JPY	(8,554,358)	GBP	(59,919)	831	-
Up to one month	KRW	(194)	GBP	(194)	-	-
Up to one month	SEK	(8,517)	GBP	(7,983)	-	(534)
Up to one month	USD	(177,427)	GBP	(167,949)	-	(9,478)
Up to one month	DKK	(65)	GBP	(7)	-	-
Up to one month	EUR	(99)	GBP	(84)	-	-
Up to one month	MXN	(1,108)	GBP	(59)	-	-
Up to one month	SEK	(1,145)	GBP	(116)	-	-
Up to one month	USD	(259)	GBP	(171)	-	-
Up to one month	EUR	(37,824)	GBP	(31,995)	-	(240)
Up to one month	GBP	59,668	JPY	8,518,471	32	-
Up to one month	USD	16	JPY	2,300	-	-
Up to one month	USD	(16)	JPY	(24)	-	-
Up to one month	GBP	8,540	SEK	8,517	-	(23)
Up to one month	EUR	(460)	USD	(389)	-	(1)
Up to one month	EUR	587	USD	386	-	(2)
Up to one month	GBP	269,195	USD	177,282	-	(242)
Up to one month	GBP	17	ZAR	1	-	-
<b>Due within one to six months</b>						
One to six months	AUD	(19,001)	GBP	(13,006)	-	(503)
One to six months	CAD	(18,661)	GBP	(12,087)	-	(343)
One to six months	CHF	(25,408)	GBP	(17,684)	-	(224)
One to six months	EUR	(70,609)	GBP	(59,743)	725	-
One to six months	JPY	(7,799,064)	GBP	(54,658)	154	-
One to six months	SEK	(87,853)	GBP	(8,892)	-	(199)
One to six months	USD	(238,710)	GBP	(157,243)	-	(5,162)
One to six months	AUD	(18,391)	GBP	(12,574)	-	(243)
One to six months	CAD	(15,483)	GBP	(10,026)	-	(100)
One to six months	CHF	(27,675)	GBP	(19,268)	354	-
One to six months	EUR	(68,200)	GBP	(57,718)	1,173	-
One to six months	JPY	(8,109,861)	GBP	(56,849)	1,344	-
One to six months	SEK	(91,025)	GBP	(9,211)	58	-
One to six months	USD	(227,638)	GBP	(149,964)	416	-
One to six months	AUD	(25,602)	GBP	(17,456)	115	-
One to six months	CAD	(18,807)	GBP	(12,170)	-	(1)
One to six months	CHF	(31,710)	GBP	(22,093)	-	(3)
One to six months	EUR	(79,923)	GBP	(67,670)	227	-
One to six months	JPY	(8,518,471)	GBP	(59,740)	-	(35)
One to six months	SEK	(81,649)	GBP	(8,257)	23	-
One to six months	USD	(268,938)	GBP	(177,200)	242	-
<b>Forward currency contracts unsettled as at 31 March 2013</b>					<b>5,696</b>	<b>(21,781)</b>
<b>Net forward currency contracts as at 31 March 2013</b>						<b>(16,085)</b>

## Section Two - Pension Fund Accounts

### 10. Additional Voluntary Contributions (AVC) Investments

AVC's are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investments of Funds) Regulations 2009 but are disclosed as a note only.

The AVC providers to the Fund are the Equitable Life Assurance Society and Standard Life Assurance Company. The assets of these investments are held separately from the Fund. The AVC providers secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in these arrangements each receive an annual statement confirming the amounts held in their account and the movements in the year.

The Fund relies on individual contributors to check that deductions made on their behalf are accurately reflected in the statements provided by the AVC providers. A summary of the information provided by Equitable Life and Standard Life to the Fund is shown in the table below.

<b>2011/12</b>		<b>2012/13</b>
<b>£000</b>		<b>£000</b>
5,996	Value of AVC fund at beginning of year	<b>5,809</b>
383	Employees contributions	<b>364</b>
307	Investment income and change in market value	<b>509</b>
(877)	Benefits paid and transfers out	<b>(842)</b>
<u>5,809</u>		<u><b>5,840</b></u>

## Section Two - Pension Fund Accounts

### 11. Current assets and liabilities

#### 11.1 Analysis of current assets

31 March 2012 £000		31 March 2013 £000
	<b>Cash Balances</b>	
1,077	Cash at bank	5,742
9,008	Cash on short term deposits within 3 months	11,534
<hr/> 10,085		<hr/> 17,276
	<b>Debtors and payments in advance</b>	
3,470	Contributions due – employees	5,142
14,463	Contributions due – employers	11,787
1,218	Sundry debtors	924
<hr/> 19,151		<hr/> 17,853
<hr/> 29,236	<b>Total</b>	<hr/> 35,129

#### 11.2 Analysis of debtors

31 March 2012 £000		31 March 2013 £000
	<b>Debtors and payments in advance</b>	
2,222	Central Government	1,381
13,949	Other Local Authorities	13,877
38	NHS Bodies	-
1,681	Public Funded Bodies	646
1,261	Other	1,949
<hr/> 19,151	<b>Total</b>	<hr/> 17,853

## Section Two - Pension Fund Accounts

### 11.3 Analysis of long term debtors by duration

31 March 2012 £000		31 March 2013 £000
1,037	Financial strain instalments due beyond 12 months	625
10,044	Other employer contributions due beyond 12 months	8,789
<b>11,081</b>	<b>Total</b>	<b>9,414</b>

### 11.4 Analysis of long term debtors

31 March 2012 £000		31 March 2013 £000
10,152	Central Government	8,868
852	Other Local Authorities	483
77	Public Funded Bodies	63
<b>11,081</b>	<b>Total</b>	<b>9,414</b>

### 11.5 Contingent assets

To protect the Fund from employer default the Funding Strategy sets out safeguards to be in place on all new admission agreements. These can include a guarantee from another Fund employer with sufficient covenant strength, and a surety bond or other contingent asset.

## Section Two - Pension Fund Accounts

### 11.6 Analysis of current liabilities

31 March 2012 £000		31 March 2013 £000
	<b>Creditors and receipts in advance</b>	
(35)	Contributions due – employees	(485)
(208)	Contributions due – employers	(3,415)
(3,133)	Investment manager fees payable	(3,090)
(2,525)	Benefits payable	(152)
(970)	Other	-
<u>(6,871)</u>	<b>Total</b>	<u>(7,142)</u>

### 11.7 Analysis of creditors

31 March 2012 £000		31 March 2013 £000
	<b>Creditors and receipts in advance</b>	
(333)	Central Government	(276)
(1,093)	Other Local Authorities	(1,275)
(197)	Public Funded Bodies	(276)
(5,248)	Other	(5,315)
<u>(6,871)</u>	<b>Total</b>	<u>(7,142)</u>

### 11.8 Contingent liabilities and contractual commitments

As at 31 March 2013, the Fund had a commitment to contribute a further **£201m** to its existing direct and indirect partnership investments, including private equity, infrastructure, timber and financing (31 March 2012: £216m – this figure has been restated to include both direct and indirect partnership investments). The amounts called by these funds are irregular in both size and timing over a period of between five to ten years from the date of each original commitment.

## Section Two - Pension Fund Accounts

### 12. Taxes on income

The table below provides a breakdown of the taxes paid by the Fund in the UK and overseas.

2011/12 £000		2012/13 £000
493	UK withholding tax	472
1,968	Overseas withholding tax	2,623
2	Payment to HMRC in respect of returned contributions	11
<u>2,463</u>		<u>3,106</u>

### 13. Related party transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. The intention in making this disclosure is to make explicit the extent to which the Fund might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to negotiate freely with the Fund.

The Essex Pension Fund is administered by Essex County Council.

The Council incurred costs of **£1.438m** in 2012/13 (2011/12: £1.299m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed **£50.062m** to the Fund in 2012/13 (2011/12: **£53.696m**). No significant amounts were owing to and due to be paid from the Fund in the year.

As at the 1 April 2010 the Fund put in place a separate bank account arrangement. Before this, the Pension Fund cash was aggregated with the County Council's balance. Surplus cash is invested by the County Council treasury management team on the sterling money market, in accordance with the Essex Pension Fund treasury management policy and strategy as agreed by the Essex Pension Fund Board on **7 March 2012**. This service is provided to the Fund at a cost of **£25,000** (2011/12: £25,000).

During the year to 31 March 2013, the Pension Fund had an average investment balance of **£16.990m** (2011/12: £8.174m) earning **£135,000** interest (2011/12: £94,000).

#### 13.1 Governance

Under FRS 8 'Related Party Disclosures' it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements. During the year each member of the Essex Pension Board and Investment Steering Committee is

## Section Two - Pension Fund Accounts

required to declare their interests at each meeting. None of the Essex Pension Board Members, Investment Steering Committee Members or Senior Officers undertook any material transactions with the Essex Pension Fund. There were no material contributions due from the employer bodies at the end of the year that remained outstanding after the due date for payment.

Essex County Council administers the LGPS for its own employees and numerous other bodies. Under legislation introduced in 2003/04, Councillors are also entitled to join the Pension Fund. Those Members of the Essex Pension Board and Investment Steering Committee who, during 2012/13, were also members of the LGPS are listed below.

Representative of scheme members	County Councillors
<ul style="list-style-type: none"> <li>K. Blackburn</li> </ul>	<ul style="list-style-type: none"> <li>Cllr D. M. Finch</li> </ul>
Representative of small admitted bodies	<ul style="list-style-type: none"> <li>Cllr N. J. Hume</li> </ul>
<ul style="list-style-type: none"> <li>J. Moore</li> </ul>	<ul style="list-style-type: none"> <li>Cllr S. Barker</li> </ul>
Representative of the Essex Police Authority	<ul style="list-style-type: none"> <li>Cllr M. C. Lager</li> </ul>
<ul style="list-style-type: none"> <li>Cllr S. Walsh</li> </ul>	
<ul style="list-style-type: none"> <li>C. Garbett</li> </ul>	

As at 31 March 2013 Keith Neale, independent adviser to the Investment Steering Committee (ISC) was in receipt of pension benefits from the Fund during the financial year.

The employees of Essex County Council who hold key positions in the financial management of the Essex Pension Fund during 2012/13 were the Executive Director for Finance, the Director for Essex Pension Fund, the Head of Essex Pension Fund and the Head of Investments. During 2012/13 approximately **3%** (2011/12: 3%) of the Executive Director for Corporate Service's time was spent on the Pension Fund, with other officers spending 100% of their time in this way. As a consequence, the short term benefits (i.e. pay) associated with the time spent by these staff working on the Fund during 2012/13 was **£169,250** (2011/12: £160,125). The 2012/13 current service cost in respect of these personnel was **£81,299** (2011/12 £64,996). The current service cost is the increase in the value of the Fund's future liabilities arising out of employees' on-going membership of the Fund.

### 14. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.



## Section Two - Pension Fund Accounts

### 14.2 Net gains and losses on financial instruments

Asset value as at 31 Mar 2012 £000		Asset value as at 31 Mar 2013 £000
	<b>Financial assets</b>	
16,009	Fair value through profit and loss	392,897
13,937	Loans and receivables	(28,959)
<u>29,946</u>	<b>Total</b>	<u>363,938</u>

### 14.3 Fair value of financial instruments and liabilities

Carry value as at 31 Mar 2012 £000	Fair value as at 31 Mar 2012 £000		Carry value as at 31 Mar 2013 £000	Fair value as at 31 Mar 2013 £000
		<b>Financial assets</b>		
3,222,155	3,222,155	Fair value through profit and loss	3,646,058	3,646,058
109,185	109,185	Loans and receivables	141,024	141,024
<u>3,331,340</u>	<u>3,331,340</u>		<u>3,787,082</u>	<u>3,787,082</u>
		<b>Financial liabilities</b>		
(4,656)	(4,656)	Fair value through profit and loss	(21,201)	(21,201)
(6,871)	(6,871)	Financial liabilities measured at amortised cost	(7,142)	(7,142)
<u>(11,527)</u>	<u>(11,527)</u>		<u>(28,343)</u>	<u>(28,343)</u>
<u>3,319,813</u>	<u>3,319,813</u>	<b>Total net financial assets</b>	<u>3,758,739</u>	<u>3,758,739</u>

## Section Two - Pension Fund Accounts

---

### 14.4 Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

- **Level 1** – Financial instruments at Level 1 are those where the fair value are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Assets classified as Level 1 comprise equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investments is based on bid market quotation of the relevant stock exchange.
- **Level 2** – Financial instruments at Level 2 are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- **Level 3** – Financial instruments classified as Level 3 are those where at least one input that could have significant effect on the instruments valuation is not based on observable market data.

Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The value of the investment in private equity is based on valuations provided by the general partners to the private equity funds in which the Essex Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IRRS and US GAAP. Valuations are usually undertaken annually at the end of December with unaudited valuations provided by the general partner as at 31 March.

The valuations of infrastructure and timber are based on net asset value provided by the fund manager.

## Section Two - Pension Fund Accounts

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Level 1 to 3 based on the level at which the fair value is observable.

Values as at 31 March 2012				Values as at 31 March 2013			
Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000		Level 1 Quoted market prices £000	Level 2 Using observable inputs £000	Level 3 Significant unobservable inputs £000	
			<b>Financial assets</b>				
2,513,391	426,951	281,813	Fair value through profit and loss	2,884,733	423,860	337,465	
109,185	-	-	Loans and receivables	141,024	-	-	
2,622,576	426,951	281,813		3,025,757	423,860	337,465	
			<b>Financial liabilities</b>				
(4,656)	-	-	Fair value through profit and loss	(21,201)	-	-	
(6,871)	-	-	Financial liabilities measured at amortised cost	(7,142)	-	-	
(11,527)	-	-		(28,343)	-	-	
2,611,049	426,951	281,813	<b>Total net assets per level</b>	2,997,414	423,860	337,465	
		3,319,813	<b>Total Net Assets</b>			3,758,739	

### 15. Nature and Extent of Risks arising

#### 15.1 Risk and risk management

The Fund's primarily long term risk is that the Fund assets will fall short of its liabilities i.e. promised benefits payable to members. Therefore the aim of investment risk management is to maximise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole of the Fund's investments. The Fund achieves this through asset diversification to reduce its exposure to a variety of financial risks: market risk; other price risk; currency risk; interest rate risk and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Investment Steering Committee (ISC). Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

## Section Two - Pension Fund Accounts

---

### 15.2 Market risk

Market risk is the possibility that financial loss might occur as a result of fluctuations in equity and commodity prices, interest rates and foreign exchange. The level of risk exposure depends on market conditions, expectation of future price and yield movements and the asset mix.

Market risk is inherent in the investments that the Fund makes. To mitigate market risk the investments are made in a diversified pool of asset classes and investment approaches to ensure a risk adjusted balance between categories. The Fund takes formal advice from its institutional investment consultant, Hymans Robertson LLP along with the Fund's independent adviser and the portfolio is split between a number of managers and investment strategies with different benchmarks and performance targets. Full details can be found in the Statement of Investment Principles which is available from the website [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk). Investment risk and strategy are regularly reviewed by the Investment Steering Committee (ISC).

### 15.3 Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All investments present a risk of loss of capital. The level of volatility will vary by asset class and also over time. The Fund has some diversification in the asset classes in which it invests, which seeks to reduce the correlation of price movements between different asset types, while employing specialist investment managers to best deploy capital in line with the Fund's overall strategy. The LGPS investment regulations also contain prescribed limits to avoid over-concentration in specific areas.

### 15.4 Other price risk sensitivity analysis

In consultation with its institutional consultants, Hyman Robertson, an analysis of historical data and expected return movements during the accounting periods in question was undertaken. The table below shows the potential price movements deemed possible for the accounting period 2012/13.

The percentages shown in the following table are broadly consistent with a movement of one standard deviation in the value of the Fund's assets, and assumes that all other variables in particular foreign exchange rates and interest rates remain unchanged.

## Section Two - Pension Fund Accounts

31st March 2012 Potential Market movement %	Asset type	31st March 2013 Potential Market movement %
9.9%	UK bonds	10.0%
18.5%	UK equities	15.5%
22.2%	Overseas equities	19.4%
7.8%	UK index linked bonds	7.9%
14.5%	Pooled property unit trusts	14.5%
29.6%	Private equity	27.5%
14.5%	Infrastructure funds	14.5%
29.6%	Timber	14.5%
14.5%	Property	14.5%
0.8%	Cash	0.8%
22.2%	Currency active	19.4%

Had the market price of the Fund investments increased/ (decreased) in line with the above assumptions the change in the net assets available to pay benefits would have been as follows:

31st March 2012 £000	Percentage change %	Value increase £000	Value decrease £000	Asset type	31st March 2013 £000	Percentage change %	Value increase £000	Value decrease £000
68,868	0.8%	69,419	68,317	Cash and equivalents	96,481	0.8%	97,253	95,709
				Investment portfolio assets				
170,600	9.9%	187,489	153,711	UK bonds	179,980	10.0%	197,978	161,982
368,741	18.5%	436,958	300,524	UK equities	441,270	15.5%	509,667	372,873
1,816,866	22.2%	2,220,210	1,413,522	Overseas equities	1,986,617	19.4%	2,372,021	1,601,213
127,446	7.8%	137,387	117,505	UK index linked bonds	264,371	7.9%	285,256	243,486
237,865	14.5%	272,355	203,375	Pooled property unit trusts	222,930	14.5%	255,255	190,605
154,424	29.6%	200,134	108,714	Private equity	196,995	27.5%	251,169	142,821
103,002	14.5%	117,937	88,067	Infrastructure	113,567	14.5%	130,034	97,100
28,181	29.6%	36,523	19,839	Timber	30,972	14.5%	35,463	26,481
25,676	22.2%	31,376	19,976	Active currency	25,332	19.4%	30,246	20,418
163,410	14.5%	187,104	139,716	Other managed funds	175,598	14.5%	201,060	150,136
196,040	14.5%	224,466	167,614	Property	195,665	14.5%	224,036	167,294
21,608	-	21,608	21,608	Net derivative assets	(16,085)	-	(16,085)	(16,085)
5,494	-	5,494	5,494	Investment income due	6,414	-	6,414	6,414
(4,484)	-	(4,484)	(4,484)	Amounts payable for purchases	(2,990)	-	(2,990)	(2,990)
2,591	-	2,591	2,591	Amounts receivable for sales	4,156	-	4,156	4,156
(127)	-	(127)	(127)	WHT payable	(201)	-	(201)	(201)
3,486,201		4,146,440	2,825,962	Total assets available to pay benefits	3,921,072		4,580,732	3,261,412

## Section Two - Pension Fund Accounts

### 15.5 Sensitivity of funding position to market conditions and investment performance

When preparing the formal valuation the Actuary takes the assets of the Fund at market value on the valuation date. Volatility in investment performance as a result of market risk factors can have an immediate and tangible effect on the funding level and deficit.

Less obvious is the effect of anticipated investment performance on the Fund's liability to pay future pension benefits. Here, the returns available on government bonds (gilts) are important, as the discount rate that is used to place a value on liabilities is the gilt yield at the valuation date plus a margin of 2.5% per annum (pre-retirement) and 1.0% per annum (post retirement). Effectively if the gilt yield rises the discount rate will increase and all other things being equal the value placed on liabilities will fall. If the Fund was invested entirely in gilts rather than potentially higher returning assets the discount rate would be lower as no margin for performance over gilts could be assumed.

### 15.6 Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk primarily impacts on the valuation of the Funds' bond holdings and to a lesser degree the return it receives on cash held. The Fund has three bond mandates; one passive bond mandate with Legal & General and two bond mandates with M&G Investments (M&G) and Goldman Sachs Asset Management (GSAM) in which exposure is actively managed.

The Fund's direct exposure to interest rate movements as at 31 March 2012 and 31 March 2013 is shown below. The underlying assets are shown at their fair value.

<b>Asset value as at 31 Mar 2012 £000</b>	<b>Asset type</b>	<b>Asset value as at 31 Mar 2013 £000</b>
68,868	Cash and cash equivalents	96,481
10,085	Cash balances	17,276
170,600	Fixed interest securities	179,980
127,446	Index-linked securities	264,371
<b>376,999</b>	<b>Total assets</b>	<b>558,108</b>

## Section Two - Pension Fund Accounts

### 15.7 Interest rate risk sensitivity analysis

Interest rates over the last 24 months have remained constant but this is not always the case and can vary as a result any variation in interest rates affects the level of income achievable and the value of the net assets of the Fund to pay benefits. The Fund's institutional consultants, Hymans Robertson, has undertaken a sensitivity analysis and advised that it is reasonable in today's climate that a movement increase/(decrease) of not more than 100 basis points on a year to year basis is possible based on past experience.

The table below shows the effect in the year on the net assets available to pay benefits of an increase/(decrease) of 100 basis points change in interest rates assuming all other factors remain unchanged.

Asset value as at 31 Mar 2012 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2013 £000	Change in year in the net assets to pay benefits	
	+100 BPS £'000	-100 BPS £'000			+100 BPS £'000	-100 BPS £'000
68,868	689	(689)	Cash and cash equivalents	96,481	965	(965)
10,085	101	(101)	Cash balances	17,276	173	(173)
170,600	1,706	(1,706)	Fixed interest securities	179,980	1,800	(1,800)
127,446	1,274	(1,274)	Index-linked securities	264,371	2,644	(2,644)
376,999	3,770	(3,770)	<b>Total change in assets available</b>	558,108	5,582	(5,582)

### 15.8 Currency risk

Currency risk is the extent to which the fair value of future cash flows of a financial asset/liability will fluctuate due to changes in exchange rates. The Fund is exposed to currency risk on all assets that are denominated in any currency other than sterling, its reporting currency. To reduce the volatility associated with fluctuating currency rates the ISC has for the Fund put in place a passive currency overlay programme which is managed by Legal and General Investment Management. The Fund hedges 50% of the US Dollar, Euro and Yen exposure within the portfolios managed by the growth managers.

## Section Two - Pension Fund Accounts

The following table summarises the Fund's currency exposure as at 31 March 2013 and prior year:

Asset value as at 31 Mar 2012 £000	Asset type	Asset value as at 31 Mar 2013 £000
1,114,687	Overseas equities quoted	1,005,806
702,179	Overseas unit trusts	980,811
154,173	Overseas private equity	196,613
36,240	Overseas Infrastructure	41,973
28,181	Overseas Timber	30,972
723	Overseas managed funds unquoted	-
<b>2,036,183</b>	<b>Total overseas assets</b>	<b>2,256,175</b>

### 15.9 Currency risk sensitivity analysis

In consultation with the Fund's institutional consultant, Hymans Robertson the Fund considers the likely volatility associated with exchange rate movements to be in the region of 12% (approximately one standard deviation) assuming other factors remain constant.

The table below shows the effect of a 12% strengthening/weakening of the pound against the investments the Fund holds in various other currencies. The increase/ (decrease) on the net assets of the Fund are as follows:

Asset value as at 31 Mar 2012 £000	Change in year in the net assets to pay benefits		Asset type	Asset value as at 31 Mar 2013 £000	Change in year in the net assets to pay benefits	
	+12% £000	-12% £000			+12% £000	-12% £000
1,114,687	1,248,449	980,925	Overseas equities quoted	1,005,806	1,126,503	885,109
702,179	786,440	617,918	Overseas unit trusts	980,811	1,098,508	863,114
154,173	172,674	135,672	Overseas private equity	196,613	220,207	173,019
36,240	40,589	31,891	Overseas infrastructure	41,973	47,010	36,936
28,181	31,563	24,799	Overseas timber	30,972	34,689	27,255
723	810	636	Overseas managed funds unquoted	-	-	-
<b>2,036,183</b>	<b>2,280,525</b>	<b>1,791,841</b>	<b>Total change in assets available</b>	<b>2,256,175</b>	<b>2,526,917</b>	<b>1,985,433</b>

### 15.10 Credit Risk

Credit risk is the possibility that the counterparty to a transaction or a financial instrument might fail in its obligation to pay amounts due to the Pension Fund resulting in a financial loss. The market value of investments reflects an assessment of credit in their pricing and consequently

## Section Two - Pension Fund Accounts

---

the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Fund is exposed to credit risk in all its operational activities through forward currency contracts, derivative positions (futures) and treasury management activities. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

### 15.11 Commercial

Commercial credit risk also arises with those organisations that pay monies over to the Fund (debtors) as part of the administration function, principally contributions from employers and transfers in from other registered pension schemes.

Except in certain bulk transfer cases, the Fund does not apply service credits in respect of transfers in until cash settlement is made.

Monthly receipt of contributions is closely monitored by the Contributions team. In addition, member records are updated throughout the year by Pensions Services with any new information provided to them. At the end of the financial year employers are required to provide Pensions Services with an annual return which is used to reconcile both member information and the contributions paid over in the year by both the employee and the employer.

The Funding Strategy Statement requires safeguards to be in place on all new admission agreements to protect the Fund from an employer default, including through a guarantee from a tax backed scheme employer for any new body. An analysis of debtor balances at 31 March 2013 is provided in Note 11.

### 15.12 Forward currency contracts

Forward currency contracts are undertaken by Legal & General for the passive currency overlay programme and by the Fund's appointed fund managers. The largest single contracts are entered into for the overseas equity passive currency overlay; the counterparties on these contracts as at 31 March 2013 are shown in the table below. The counterparty on contracts entered into by other investment managers is at the discretion of those managers. All parties entering into forward contracts on behalf of the Fund are FSA regulated and meet the requirements of the LGPS (Management & Investment of Funds) Regulations 2009. Further details of forward foreign exchange contracts are provided in note 9.

## Section Two - Pension Fund Accounts

Exposure at 31 March 2012		Counterparty	Exposure at 31 March 2013	
£000	%		£000	%
157,422	10.5%	Barclays Capital	148,850	8.7%
87,791	5.9%	BNP Paribas Capital Markets	225,711	13.3%
137,641	9.2%	Citigroup	-	-
185,608	12.4%	Australian Commonwealth Bank	133,072	7.8%
223,750	15.0%	Credit Suisse AG	201,007	11.8%
143,588	9.6%	Deutsche Bank AG	187,096	11.0%
51,781	3.5%	HSBC	-	-
212,285	14.2%	J P Morgan Securities	181,720	10.7%
-	-	Lloyds	82,881	4.9%
-	-	RBC Europe	140,605	8.3%
114,075	7.6%	RBS	-	-
78,739	5.3%	Royal Bank of Canada	-	-
9,840	0.7%	SEB	4,349	0.3%
-	-	SG Securities	194,796	11.5%
87,944	5.9%	UBS	184,288	10.8%
3,593	0.2%	Westpac Bank Corp	16,162	0.9%
1,494,057	100.0%	<b>Total</b>	<b>1,700,537</b>	<b>100.0%</b>

### 15.13 Futures

Futures contracts entered into by the Fund are all exchange traded. As a consequence, credit risk is minimised as counterparties are recognised financial institutions with acceptable credit ratings determined by a recognised rating agency. At 31 March 2012 the contracts in place were all traded in the US on the Chicago Mercantile Exchange (CME). Further details of these futures contracts are provided in note 9. In these transactions the clearing broker Goldman Sachs acts as counterparty to both sides of the contract (buyer and seller). The clearing broker requires both parties to put up an initial amount of cash (variation margin). All positions are then marked to market daily, with margins required to be posted and maintained at all times. This minimises the risk of default by either party. In the event that a client does default, FSA rules state that the broker must make good the position to the extent that it is able, primarily through accessing the other party's variation margin. The ultimate default risk therefore lies with Goldman Sachs and their balance sheet strength but is underpinned by the contractual requirement for variation margin. Goldman Sachs is a registered deposit taking institution and therefore monies posted to it are held under banking regulation rather than in accordance with FSA client money rules.

There were no open future contracts as at 31<sup>st</sup> March 2013.

## Section Two - Pension Fund Accounts

---

### 15.14 Bonds

Credit risk will also be considered by the Fund's bond managers in their portfolio construction. A bond is a saleable debt instrument issued by a corporation, government or other entity, the instrument may be purchased direct from the issuer or in the secondary market.

In addition to the passive manager, Legal & General, the Fund has two active bond managers M&G and GSAM the former also manage a financing fund.

Both M&G and GSAM manage pooled assets against a LIBOR plus benchmark. At 31 March 2013, the average credit quality of the M&G bond mandate was **A** rated (A- rated as at 31 March 2012) and the portfolio had suffered four defaults since inception, none have been experienced in the financial year ended 31 March 2013. The average credit rating of the financing fund was **BB** rated as at 31 March 2013 (BB rated as at 31 March 2012), and the portfolio has not suffered any defaults since inception. The portfolio managed by GSAM as at 31 March 2013 had an average credit quality of **AA** (AA+ rated as at 31 March 2012) and has suffered two defaults since inception, both occurring 2011/12.

### 15.15 Cash held on deposit and current accounts

**Cash managed internally** – The Fund has operated a separate bank account since 1 April 2010 with Lloyds TSB Bank plc, which is also banker to the Administering Authority. The bank holds an **A** (A in 2011/12) long term credit rating with Standard and Poor. Cash is invested with Lloyds TSB and is placed with institutions on the Administering Authority's approved counter-party list. The management of cash is carried out by the Treasury Management function of the Administering Authority in accordance with the treasury management policy and strategy approved by the Essex Pension Board. The Board have approved the management of cash in accordance with the policies and practices followed by the Administering Authority for its own investments as outlined in the CIPFA Code of Practice for Treasury Management in the Public Services. The Authority sets detailed credit criteria having taken independent advice and has maximum exposure limits to any single institution. Details of such are shown in the following tables. At 31 March 2013 **£17.276m** (31 March 2012: £10.085m) was under management by the Administering Authority's Treasury Management Team. Over the last five financial years the Pension Fund has no experience of default or uncollectible deposits.

**Cash managed externally** – The majority of the cash held by the Fund's custodian, the Northern Trust is swept overnight to one of two AAA rated money market funds. The historical experience of default from AAA rated entities detailed in the table below is nil. As at 31 March 2013, the total balance held in the Sterling, US dollar and Euro AAA money market funds was **£87.769m** with a smaller balance of **£8.342m** held in the custodian current account (31 March 2012: £58.716m and £9.761m respectively). The use of a money market fund provides an underlying diversification of counter-party and avoids exposure to a single institutional balance sheet, in this case the custodian.

## Section Two - Pension Fund Accounts

The table below provides a breakdown of where the Pension Fund cash is managed:

31 March 2012			31 March 2013	
£000	Rating		Rating	£000
<b>Cash managed externally</b>				
Cash held on deposit				
40,851	AAA	BNP Paribas Investment Partners	AAA	47,117
17,865	AAA	BNY Mellon Liquidity Fund	AAA	-
-	AAA	Northern Trust	AAA	40,652
Cash held in Current Account				
9,761	AA	The Bank of New York Mellon	AA	4
-	AA-	Northern Trust	AA-	8,342
62	A+	Barclays plc	A+	366
Cash held in a Margin Account				
329	A-	Goldman Sachs	A-	-
<u>68,868</u>		<b>Total cash managed externally</b>		<u>96,481</u>
<b>Cash managed internally</b>				
Cash held on deposit				
3,002	A+	Barclays Bank	A+	3
-	AA-	HSBC	AA-	6,510
3,004	A	Royal Bank of Scotland Group	A-	5,019
-	A+	Santander UK	A+	-
3,001	AA-	Svenska Handelsbanken	AA-	-
Cash held in Current Account				
1,078	A	Lloyds TSB Bank plc	A	5,744
<u>10,085</u>		<b>Total cash managed internally</b>		<u>17,276</u>
<u>78,953</u>		<b>Total</b>		<u>113,757</u>

## Section Two - Pension Fund Accounts

The following table summarises the maximum exposure to credit risk of the cash held with Northern Trust and other financial institutions.

31 March 2012		31 March 2013	Maximum limit per Financial Institution	Historical risk of default	Estimated maximum exposure to default and uncollectability
£000		£000	£000	%	£000
<b>Cash managed externally</b>					
	Deposit with bank and other financial institutions				
58,716	AAA Rated	87,769	60,000	-	-
9,761	AA Rated	8,346	-	0.03%	3
391	A Rated	366	-	0.08%	-
68,868	<b>Total cash managed externally</b>	96,481			3
<b>Cash managed internally</b>					
	Deposit with bank and other financial institutions				
3,001	AA Rated	6,510	10,000	0.03%	2
7,084	A Rated	10,766	5,000	0.08%	9
10,085	<b>Total cash managed internally</b>	17,276			11
78,953	<b>Total cash</b>	113,757			14

### 15.16 Liquidity Risk

Liquidity risk is the possibility that the Fund might not have adequate cash resources available to meet its financial commitments as they fall due.

The ISC reviews its strategy on a yearly basis and where necessary takes steps to ensure that the Fund has adequate readily realisable resources to meet its financial commitments. The majority of the Fund's investments are quoted on major stock markets and are in readily realisable form. The Fund's strategic allocation to alternative investments, which are relatively illiquid, was as a result of a review of strategic asset allocation on **20 February 2013**, **26.5%** of the Fund's assets. The Fund is relatively immature with almost as many contributors as pensioners, dependants and deferred pensioners. In consequence the Fund has a positive cash flow and is able to pay benefits from contributions received. As the Fund is not in the position of a forced seller (i.e. it does not need to sell assets in order to pay benefits), it is considered appropriate to hold such illiquid investments to increase diversification, minimise risk and improve long-term investment performance.

The Fund as at 31 March 2013 had immediate access to its pension fund cash holdings held internally and externally of **£113.757m** (31 March 2012: £78.953m). These monies are primarily invested on an overnight basis on the money market.

## Section Two - Pension Fund Accounts

---

Officers of the Fund prepare periodic cash flow forecasts to understand and manage the timing of the Funds cash flows. The Statement of Investment Principles outlines the appropriate strategic level of cash balances that the Fund can hold. More detail can be found in the Pension Fund Annual Report and Accounts. In consultation with its institutional consultants, Hymans Robertson, the Fund is currently preparing a future cash flow forecast modelling tool which will incorporate the affects of the potential regulatory changes to the future of the scheme which is due to take effect in 2014/15.

### 15.17 Refinancing Risk

Refinancing risk is the risk of the Fund replenishing a significant proportion of its financial assets at a time of unfavourable interest rates. The Fund is not subject to this particular risk as it does not hold any assets that would require refinancing in the future.

### 15.18 Custody

In 2012 the Fund appointed Northern Trust as a global custodian, replacing the Bank of New York Mellon, with responsibility for safeguarding the assets of the Fund. As at 31 March 2013 Northern Trust had **£5.02 trillion** of assets under custody and had a credit rating of **AA-**. Monthly reconciliations are performed between the underlying records of the custodian and all investment managers and partnerships of the Fund.

### 15.19 Investment Management

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2009. Reports on manager performance are monitored by the ISC on a quarterly basis. The Fund makes use of the custodian's performance measurement service to monitor performance. In addition to presenting to the ISC, managers also meet with Fund officers and advisers to review progress.

### 15.20 Post Balance Sheet Event

As at 31<sup>st</sup> March 2013, there were no post balance sheet events.

As at 31 March 2012, two employing bodies within the Fund, Connaught Partnership Ltd and Chelmsford Agency for Volunteering were subject to liquidation proceedings. Subsequent to the balance sheet date, a payment of **£440,000** was made in respect of Connaught Partnership Ltd and **£11,000** was received in respect of Chelmsford Agency for Volunteering.

## Section Two - Pension Fund Accounts

---

### 16. Further information

The Council publishes a separate Pension Fund Annual Report and Accounts. Copies may be obtained from the website [www.essexpensionfund.co.uk](http://www.essexpensionfund.co.uk) or by contacting:

Director of Essex Pension Fund  
County Hall  
Chelmsford  
CM1 1LX

Telephone 01245 431301

E-mail [pensions.investments.web@essex.gov.uk](mailto:pensions.investments.web@essex.gov.uk)

## Section Two - Glossary

Term	Explanation
Accruals	Sum included in the accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received / made, by the end of that accounting period.
Actuary	A suitably qualified independent consultant employed to advise the Council upon the financial position of either the Pension Fund or the Council's insurance arrangements.
Accrued benefits valuation method	<p>A valuation method in which the Pension scheme's liabilities at the valuation date relate to:</p> <ul style="list-style-type: none"> <li>▪ The benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and</li> <li>▪ The accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.</li> </ul>
Accumulating Absences	Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. In local authorities, annual leave, flexitime and time in lieu would usually be accumulating. Accumulating absences are typically earned by employees as they provide services. The Government has issued regulations which mean that the Council is only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.
Additional voluntary contributions	Additional voluntary contributions (AVC's) are an option available to individuals to secure additional pension benefits by making regular payments in addition to those payable on basic earnings.
Amortisation	Amortisation is the writing down of costs to the Income and Expenditure Account over a number of years.
Appropriations	Appropriations are the transfer of resources between, to and from the various reserves.
Billing authority	District and borough councils are responsible for the billing and collection of Council Tax. They calculate the amount to be raised from Council Tax after taking into consideration their needs and those of the County Council and the Police and Fire Authorities.
Cabinet	The Cabinet comprises the Leader of the Council, who is its chairman, and nine other Members appointed by the Leader. Each member of the Cabinet has a defined portfolio of responsibilities for the discharge of the Council's business; these portfolios are assigned by the Leader annually and are reported to the Council.
Capital Adjustment Account	<p>This account represents:</p> <ul style="list-style-type: none"> <li>▪ Amounts set aside from revenue resources to repay external loans;</li> <li>▪ The financing of capital payments from capital receipts and revenue reserves; and</li> </ul>

## Section Two - Glossary

Term	Explanation
	<ul style="list-style-type: none"> <li>The consolidation of gains arising from the revaluation of property, plant and equipment prior to 1 April 2007.</li> </ul>
Capital expenditure	This is expenditure on the acquisition of property, plant and equipment (with certain minor exceptions) that will be of use or benefit to the Council in providing its services for more than one year.
Capital financing costs	Costs associated with the financing of property, plant and equipment, representing interest and principal repayments on loans and contributions from revenue reserves towards capital payments.
Capital financing requirement	This is a measure of the Council's underlying need to borrow for capital financing purposes.
Chartered Institute of Public Finance and Accountancy	The Chartered Institute of Public Finance and Accountancy (CIPFA) is the main professional body for accountants working in the public service.
Collection Fund	Account maintained by billing authorities for the collection and distribution of Council Tax and business rates.
Community Assets	Assets that the Council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and monuments.
Contingent liability	Contingent liabilities are possible or present obligations that arise from past events, whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control. Contingent liabilities are not recognised in the accounts as an item of expenditure.
Council tax	A local tax set by local authorities in order to finance their revenue expenditure. The level set by a Council will be dependent on the level by which its budgeted expenditure exceeds income from other sources (for example, grants awarded by central government).
Creditors	Amounts due, but not yet paid, for work done, goods received or services rendered during the financial year.
Debtors	Amounts due, but not yet received, for work done or services supplied, during the financial year.
Defined benefit pension scheme	A defined benefit pension scheme is any scheme other than a defined contribution scheme. Usually the scheme rules define the benefits independently of the contributions payable and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).
Defined contribution pension scheme	A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current or prior periods.

## Section Two - Glossary

Term	Explanation
Depreciation	Depreciation is a measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technical or other changes.
Discount (PWLb)	In the event of the Council prematurely repaying a loan to the Public Works Loan Board (PWLb) it will be required to pay to the PWLB the present value of the remaining payments of principal and interest due on the loan. The present value is calculated with reference to the rates of interest in force when the repayment is confirmed. To the extent that the rate in force is above the rate of interest payable on the loan being repaid, the Council is compensated by the PWLB for the interest rate differential. This differential is referred to as a 'discount' arising from early settlement of the loan.
Discretionary benefits	Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Council's discretionary powers, such as the Local Government (Discretionary Payments) Regulations 1996, the Local Government (Discretionary Payments and Injury Benefits (Scotland) Regulations 1998, or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.
Donated asset	Donated assets are assets transferred to the Council at nil value or acquired at less than fair value
Dormant company	The term 'dormant' applies to a company that, in legal terms, has no significant accounting transactions during a financial year. Companies can be dormant in order to hold an asset, or to protect the company name. Whilst the company is dormant, various returns and the annual company Balance Sheet must nevertheless be prepared and filed with Companies House.
Effective interest rate	The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset. It is used to calculate the amortised cost of an asset or liability.
Fair value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Fees and charges	Charges made to the public for a variety of services such as the provision of school meals, meals-on-wheels, letting of school halls and the hire of sporting facilities.
Finance leases	Finance leases transfer all, or the majority of, the risks and rewards of ownership of a fixed asset to the lessee. Consequently, the fixed asset is included within the Balance Sheet of the lessee, even though the lessor retains legal title of the asset (also see 'Leasing' and 'Operating Leases').
Financial instruments	Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Examples include the borrowing or lending of money and the making of investments.
Heritage Assets	Tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

## Section Two - Glossary

Term	Explanation
IFRS	International Financial Reporting Standards. These are accounting standards by which the Council prepares its accounts.
Investments	<p>A long term investment is intended to be held for use on a continuing basis in the activities of the Council. Investments are so classified only where an intention to hold the investment for the long term (greater than one year) can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.</p> <p>Investments, other than those related to the pensions fund that do not meet the above criteria, are classified as current assets.</p>
Leasing	A method of acquiring the use of capital assets without legal title (ownership). There are two main types of leasing arrangements – namely finance leases and operating leases.
National Non Domestic Rates	These rates are the means by which local businesses contribute to the cost of providing local authority services. Business rates are paid into a national pool. The pool is then divided between all authorities in proportion to their formula grant allocation.
Operating lease	Operating leases are agreements for the rental of assets where the rewards and risks of ownership of the asset remain with the leasing company. The annual rentals are charged directly to the Income and Expenditure Account (also see Leasing and Finance Leases).
Precept	The amount the County Council requires the Borough / District Councils to pay from the Council Tax they have collected (on behalf of all authorities that set Council Tax) to meet the cost of County Council services.
Premium (PWLb)	In the event of the Council prematurely repaying a loan to the Public Works Loan Board (PWLb) it will be required to pay to the PWLB the present value of the remaining payments of principal and interest due on the loan. The present value is calculated with reference to the rates of interest in force when the repayment is confirmed. To the extent that the rate in force is below the rate of interest payable on the loan being repaid, the Council is required to recompense the PWLB for the interest rate differential. This differential is referred to as a 'premium' arising from early settlement of the loan.
Private Finance Initiative	A long-term contractual public private partnership under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to agreed standards of performance.
Provisions	An amount set aside to provide for a liability that is likely to be incurred as a result of a past event, prior to the balance sheet date, but where the exact amount and the date on which it will arise is uncertain.
Public Private Partnership	An arrangement where the private sector partner agrees to provide a service to a public sector organisation. The PFI is one form of a PPP.
Public Works Loans Board	The PWLB is a government agency that provides longer-term loans to local authorities, at interest rates marginally above the Government's own borrowing rate.
Remuneration	Remuneration includes all amounts paid to or receivable by a person, including sums due by way of expense allowances (so far as these are chargeable to tax) and the estimated money value of any other benefits received by an employee otherwise than in cash.

## Section Two - Glossary

Term	Explanation
Reserves	<p>The Council's accumulated surplus income in excess of expenditure, which can be used to finance future spending and is available to meet unforeseen financial events.</p> <p>Earmarked reserves are amounts set aside for a specific purpose in one financial year and can be carried forward to meet expenditure in future years.</p>
Revenue provision	The minimum amount which must be charged to the revenue account each year and set aside for repaying external loans, currently 4% of the capital financing requirement.
Revenue Support Grant	This is the central government financial support towards the general expenditure of local authorities.
Retirement benefits	All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable. This is because these are not given in exchange for services rendered by employees.
Salary	Salary represents the amounts received under contract of employment for services rendered, other than bonuses, allowances, benefits in kind or compensation payments.
Scheme liabilities	The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the 'projected unit method' reflects the benefits that the employer is committed to provide for service up to the valuation date.
Settlement	An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement.
Specific government grant	These represent central government financial support towards particular local authority services, which the Government wishes to target.
Termination benefits	Termination benefits are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are often lump-sum payments, but also include enhancement of retirement benefits; and salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

# **Annual Governance Statement**

# Section Three – Governance Statement

---

## 1. Our Annual Governance Statement

This Annual Governance Statement summarises the outcome of our review of the Governance Framework that has been in place over the last year (i.e. during 2012/13). The Statement demonstrates that we have in place effective arrangements for the governance of our organisation and that we are satisfied that we have a robust system of internal control, which is itself, a critical component of our overall governance arrangements.

## 2. Scope and Responsibility

We are responsible for ensuring that our business is conducted in accordance with the law and proper standards, and for ensuring that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. We also have a duty under the Local Government Act 1999 to continually review and improve the way we work, while at the same time offering value for money and an efficient and effective service.

To meet our responsibility, we have put in place proper arrangements for overseeing what we do (this is what we mean by 'governance'). These arrangements are intended to make sure that we do the right things, in the right way, for the right people, in good time, and in a fair, open, honest and accountable way.

We have approved and adopted a code of corporate governance. Our code is on our website at [www.essex.gov.uk/your-council/Strategies-Policies/Code-of-Governance](http://www.essex.gov.uk/your-council/Strategies-Policies/Code-of-Governance).

## 3. The purpose of the Governance Framework

Our **Governance Framework** comprises a collection of systems, policies, procedures, rules, processes, behaviours and values by which the authority is controlled and governed, and also the activities through which it answers to, gets involved with and leads its communities. This framework allows us to monitor how we are achieving our strategic aims and to consider whether those aims have helped us deliver appropriate services that are good value for money.

The **system of internal control** is an important part of our Governance Framework and is designed to enable us to manage risk to a reasonable level. Whilst it cannot eliminate all risks arising out of a failure to achieve policies, aims and objectives, it is designed to enable us to manage all risks to a reasonable level, thereby providing reasonable assurance of effectiveness. The system of internal control is based on an on-going process designed to:

- identify and prioritise the risks that could prevent us from achieving our policies and aims;
- assess how likely it is that the identified risks will happen, and what will be the result if they did; and
- manage the risks efficiently, effectively and economically.

## Section Three – Governance Statement

---

The **Code of Governance** is a set of 6 core principles, developed by the Chartered Institute of Public Finance and Accountability (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) in their paper [\*Delivering Good Governance in Local Government\*](#), which we have adopted in line with good practise. The contents of our Governance Framework together meet the requirements of those 6 key principles - the Code, and key supporting documents from the Framework, can be found on the Council's website at [www.essex.gov.uk/your-council/strategies-policies/code-of-governance](http://www.essex.gov.uk/your-council/strategies-policies/code-of-governance).

As part of our on-going arrangements, the governance framework has been in place at the Council throughout 2012/13, and remains in place on the date of approval of the Statement of Accounts (i.e. on **30th September 2013**).

### 4. The Governance Framework

Our Governance Framework is made up of the many systems and processes we have in place, including those to do the following:

- (i) **Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users**
- (ii) **Reviewing the authority's vision and its implications for the authority's governance arrangements**
- (iii) **Translating the vision into objectives for the authority and its partnerships**

At the meeting of the Full Council on **12<sup>th</sup> February 2013** the Council discussed and approved the following documents:

- [Revenue Budget 2013/14 and Capital Programme 2013/14-2016/17](#)

This document outlines how the Council will manage its resources for services in the coming year and how it intends to spend its money.

- [Medium Term Resources Strategy 2013-14 – 2016/17](#)

The Medium Term Resource Strategy (MTRS) is in section 6 of the budget report that went to Council on the **12<sup>th</sup> February 2013**.

It describes how, working in partnership, we will manage our resources (finances, information systems and technology, infrastructure, natural resources, people, and property) efficiently over the next five years and align them to our priorities. It also sets out our view of the longer term financial outlook for the Council and describes our key partnerships in resource terms.

- [Essex Works Corporate Plan 2012-17](#)

This document outlines the Council's vision, priorities and intended outcomes for the period 2012/2017. The Council's overarching vision is: ***Essex means business. We want to be a vibrant place where every individual and community has the opportunity to grow and reach their potential and play a part in our county's success.***

## Section Three – Governance Statement

---

- [EssexWorks Commitment](#)

First introduced in February 2012, this lays out the Council's vision for Essex over the period 2012 – 2017. It articulates ECC's commitment to the County and sought to mark the first step in a new partnership bringing together public bodies and Essex's citizens and communities.

The Cabinet is accountable to full Council for the delivery of the Corporate Plan. The Corporate Leadership Team (CLT) is responsible for delivery and reports progress to the Political Leadership Team at regular intervals. The Scrutiny Committees are empowered to scrutinise the performance of the Council against its priorities as set out in the EssexWorks Corporate Plan and Commitment. A review of Scrutiny (see paragraph (x)) took place during 2012/13.

In 2012/13 we entered [the second phase of our Transformation programme](#). This includes a work stream to continue to review and update our Governance structures and arrangements in response to the way that the organisation is changing, ensuring they remain fit for purpose – see paragraph (vii).

As we move towards becoming an outcomes based, commissioning led organisation we need to clearly articulate the outcomes we want to achieve for our residents and businesses, the indicators we will monitor to gauge whether we are making good progress and the performance measures we will manage. Officers from policy, business intelligence, finance and elsewhere are working together to develop a bespoke outcomes based accountability framework for ECC. This work continues.

**(iv) Measuring the quality of services for users, to ensure they are delivered in accordance with the authority's objectives and ensure that they represent the best use of resources and value for money;**

We continue to use a performance management framework which sets out the arrangements for ensuring we are delivering against the priorities and outcomes we have committed to and how we will measure our progress.

A key part of this is the Balanced Scorecard framework which we use across the Council in each directorate and service as well as at the senior corporate level. Financial information is a key part of those Scorecards and we also use this as one way to stay aware of risks around priorities and outcomes. The framework is one of the key ways in which we monitor progress of the Council's Corporate Plan and check that we're doing all the things we need to do to achieve our stated goals.

Progress is regularly reviewed at various levels including Cabinet, Scrutiny, Corporate Leadership Team and Directorate Leadership Teams. Each of these plays a key role in ensuring that progress is reviewed and acted upon and, in particular, Scrutiny continues to play a key role in ensuring quality is delivered, providing an independent and robust challenge to delivery of the Council's objectives and holding Cabinet to account for

## Section Three – Governance Statement

---

delivery. A review of Scrutiny has taken place this year to ensure that Scrutiny remains as effective as possible, and the review's recommendations were agreed at Full Council on 14 May 2013 (see paragraph (x)). We have also been developing an integrated report for performance, finance and risk for 2013/14 which will further embed this approach.

In addition, our approach to sector led improvement is helping the continued review and improvement of services. We have played an active role in shaping both the national, regional and local approaches being developed by the Local Government Association, Association of Directors of Children's Services and Association of Directors of Adult Social Services. This framework has formed, and continues to form, the basis for activity to support improvement throughout the organisation including external peer review, self-assessment and benchmarking between organisations to support the continuous drive for value for money.

The joint finance and performance [2011-12 Annual Performance Report](#) was completed in 2012 and is a public facing report using accessible language to demonstrate where tax payers' money was spent, progress in delivering our priorities, the impact of our achievements and where further focus on improvement was needed.

Children's Services were removed from Government intervention in January 2012. This followed a successful peer review and an Ofsted inspection which resulted in a judgement of 'Adequate'. Our own performance data shows that a trajectory of improvement has continued, supported by Ofsted inspection outcomes of 'Good' for Adoption in February 2012, 'Good' for Private Fostering in January 2013 and 'Good' for Fostering in May 2013.

The Council has committed to the rolling programme of evidence submission for POET, the regional 'Performance, Outcomes and Evidence Tool' for Adult Social Care. This collates information on achievements, priorities and challenges on given topics, for the purpose of sharing best practice amongst the regional authorities. The first two areas completed were 'enabling choice and control' and 'enabling accessible information, positive advice and support'.

The Council's employees continue to be supported by a comprehensive individual performance management process. This includes 'My Performance' contracts which define the outcomes required from each employee and is linked to the overarching principles and priorities of the Corporate Plan, and is essential in enabling the Council to successfully deliver its Corporate Plan. The Council's Corporate Plan is underpinned by seven directorate plans which set out how the services within that directorate will deliver the priorities and is used in setting employees' objectives within their 'My Performance' contracts. Our values were revised in 2012 to support the delivery of the vision and priorities. New Leadership and Organisational Behaviours were introduced for all employees in March 2013 and form a part of each employee's 'My Performance' contract, clearly setting out the Council's expectations of all employees.

## Section Three – Governance Statement

---

- (v) **Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements**

[The Constitution](#) clearly defines the roles and responsibilities of:

- |                                    |                         |                           |
|------------------------------------|-------------------------|---------------------------|
| ▪ Cabinet members                  | ▪ Council Committees    | ▪ Monitoring Officer      |
| ▪ Council members                  | ▪ Chief Officers        | ▪ Section 151 Officer     |
| ▪ Overview and Scrutiny Committees | ▪ Head of Paid Service  | ▪ Scrutiny Officer        |
|                                    | ▪ Leader of the Council | ▪ Chairman of the Council |

Part 3 of the [Constitution](#) sets out how Councillors' authority is delegated to Cabinet Members and Officers, and this is reviewed and updated in response to any changes in Cabinet or Officer responsibilities or structures. Chief Officers are in turn responsible for authorising delegations to their officers and these delegations are also recorded and updated when structures change. The protocol on Member/Officer relations contained within Part 5 of the [Constitution](#) further defines the day-to-day roles and responsibilities of Officers and Members.

The Council has [financial regulations](#) in place which provide a framework to identify the financial responsibilities of the Council and the financial limits assigned to Officers. These also set out the responsibilities in relation to partnerships and commissioning arrangements.

- (vi) **Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff;**

All our employees and Members of the Council must conduct themselves in accordance with the terms of the [Officer Code of Conduct](#) and [Member Code of Conduct](#). All Members were signed up to a national Member Code of Conduct until this was abolished by the Localism Act 2011, along with the national body, Standards for England, and its oversight of local authorities. Nonetheless, ECC has a duty to maintain high standards of conduct and we have therefore proactively developed a local code in consultation with local authorities across Essex and all of ECC's Councillors. In October 2012 (see paragraph (ix)) the Council adopted a new [code of conduct](#) incorporating the [Nolan Principles](#) and opted to retain the Joint Standards Committee with the Essex Fire Authority. At the same time they adopted a new set of delegations in relation to how we deal with complaints and appointed two 'independent persons' to advise the committee.

The Essex County Council and Fire Authority Joint Standards Committee's main function in relation to ECC is to promote and maintain high standards of conduct by Councillors and to help them follow the [Code of Conduct](#). The Committee's terms of reference are set out in the [Constitution](#). Records of the Committee's meetings and decisions are available

## Section Three – Governance Statement

---

via the [Council's website](#). In July 2012 it presented its annual report to Council. This was the third year that the Committee had been constituted as a joint committee for the Council and the Fire Authority and this arrangement has worked well.

No complaints were referred to the Standards Committee during 2012/13.

Our corporate governance e-learning training includes modules called 'How We Behave' and 'Good Decision Making' which cover the Code of Conduct and other expectations we have of Councillors and employees – see paragraph (xviii).

**(vii) Reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality**

Article 5 of the [Constitution](#) defines the responsibilities for decision making and the principles in accordance with which decisions must be made. They include the definition of key decisions and provide additional guidance to that definition in Part 4.

See paragraph (v) for delegation arrangements.

All agendas, minutes and decisions taken by Cabinet members are available to the public through the [Council's website](#). We have an [online committee management system](#) which ensures easily accessible and good quality information is always available about decisions and Member meetings. This also ensures that the committee process is efficiently managed.

The Council's public engagement strategy aims to involve the public in the Council's decision making. Involvement occurs in many different ways: through surveys, online tools, focus groups of the citizens' panel, deliberative workshops, stakeholder forums, service user groups, through Healthwatch Essex, giving evidence to scrutiny committees, and formal consultation documents. The next stages of the Council's Transformation will enable the Council to take a more integrated approach to public and service user engagement.

The Overview and Scrutiny Committees play a key role in developing and maintaining effective scrutiny of decisions carried out within each directorate and encourages constructive challenge and effective mechanisms for decisions and recording the criteria, rationale and considerations on which each decision is based. Each Overview and Scrutiny Committee has its own terms of reference and these are set out in the [Constitution](#). The Audit Commission Review of the Council's Governance Arrangements for 2010/11 highlighted the need to review scrutiny arrangements to instil confidence in the process from members, officers and the public. This review was undertaken during 2012/13 and recommendations from the review were agreed at Full Council on 14 May 2013 (see paragraph (x)).

## Section Three – Governance Statement

---

The Corporate Governance Steering Board was chaired by the Deputy Leader of the Council during 2012/13 and is tasked with considering Corporate Governance matters at the highest level. It is made up of Councillors including the chairman of the Audit Committee and opposition Councillors, and also senior officers including the Executive Director for Finance. From June 2013 it will be chaired by the Leader.

A new arrangement for 2012/13 was the Operations Board, consisting of senior officers from across the Council, set up in March 2012. Operations Board reported to the Corporate Leadership Team. It was tasked with:

- Overall delivery of the Council's policies and priorities across the organisation as commissioned by CLT, ensuring adherence to appropriate statutory and governance frameworks
- Providing cross-organisation leadership and facilitating effective delivery of new operational models, including realisation of associated benefits, having regard to related risks and issues
- Minimisation of duplication and resolution of conflict in the transformation programme and individual projects, and maximising opportunities at a County wide level.
- Providing oversight and scrutiny of the Council's commercial activities, primarily commissioning and procurement; review and approve commercial activities at key stages in the process; ensuring adherence to procurement standards, alignment with corporate priorities and delivery of value for money.
- Reviewing the Council's Governance arrangements, making recommendations to the Corporate Governance Steering Board where improvements are required.
- Holding service managers to account for financial and service performance, identifying corrective actions where required, referring issues and recommendations to CLT / S151 as appropriate.

Its remit includes all corporate governance issues and the members of the group act as 'Governance Champions' for their areas of the authority. At the time of writing, this board is under review and is likely to be consolidated with the new Corporate Management Board in line with the Council's aim to reduce governance bodies and streamline decision making.

The Information Policy Development Group is attended by Information Champions from across the Council among others from Information Services. It deals with Information Policy to maintain an effective information governance framework and escalates items to Operations Board as necessary.

The Council's 'How We Get Things Done' intranet channel was revamped in 2012 to make it more user-friendly and accessible. It continues to be updated, providing officers and councillors with access to information about how the Council deals with particular issues across the organisation and enabling easy access to guidance and policies relevant to

## Section Three – Governance Statement

---

those areas. This includes ‘how we buy things’, ‘getting decisions made’ and ‘contracts and contract management’.

The Council’s framework of corporate governance policies, guides and protocols is reviewed on a rolling basis with responsibility for the reviews distributed to the relevant key senior personnel to promote a culture of governance awareness and responsibility. This was one of the recommendations of the 2011/12 AGS.

In addition, the second phase of our Transformation programme includes a work stream to continue to review and update our Governance and decision making structures and arrangements, ensuring they remain fit for purpose in the changing organisation. The 2011/12 AGS Action plan also recognised the need to ensure governance arrangements were in place for the Council’s Target Operating Model. Our governance arrangements have changed to reflect the new political management structure that has been created but as we develop and start to implement our new Transformation programme we need to continue to keep our governance structures and roles and responsibilities under review. As we move towards becoming an outcomes-based, commissioning led organisation, we need to consider alternative forms of service delivery in order to ensure we have in place the most effective delivery arrangements. This may lead to an increase in the number of local authority companies or alternative business structures created and it is therefore essential that we have appropriate controls in place for the creation of new legal entities or shareholdings. A companies’ database has been created and is held and maintained by the corporate law team. Corporate legal advice is given on new initiatives in this area.

### **(viii) Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability**

An Internal Audit review of Risk Management arrangements produced a ‘Limited Assurance’ opinion. The Risk Assurance Statement 2012/13 recognises this, commenting that the key issues reported (i.e. monitoring of risk and definition of corporate risk appetite) had already been identified by the Strategic Risk Manager as areas of priority focus within both the Improvement Plan and the annual work stream plan for next year - see the action plan in Appendix 2.

In 2013/14 we have issued our Risk Assurance Statement on the year 2012/13 which states that the Council’s risk environment is now ‘risk enabled and integrated’, with a ‘healthy appetite for risk’. It adds: *‘the Council takes informed risks to drive the organisation forward in times of challenge and austerity to maximise the opportunities presented and ensure delivery of an optimum service to its citizens.’*

## Section Three – Governance Statement

---

### **(ix) Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained**

In our Internal Audit service we have a dedicated Counter Fraud Team made up of the Counter Fraud Manager and two Investigators. The Counter Fraud Team delivers services to both Essex County Council and also external clients. The Counter Fraud Team is responsible for conducting investigations and supporting our services in providing evidence for any criminal investigations. The Counter Fraud Team have undertaken proactive prevention and detection work, specifically the management of the National Fraud Initiative (NFI) and directed fraud awareness training. The results from the NFI biennial data matching exercise, co-ordinated by the Audit Commission, have been received during February / March 2013. The Counter Fraud Team are currently in the process of reviewing and investigating the matches.

The mandatory Corporate Governance e-learning pack includes an 'Anti-fraud and Corruption module. See point 18.

The Audit Committee received six-monthly updates in respect of Counter-Fraud and a summary of Counter-Fraud activity is included in the Internal Audit Annual Report. The Counter Fraud activity report went to Audit Committee in December 2012.

The Audit Committee Chairman has signed a letter of compliance setting out an understanding of how those charged with Governance exercise oversight of the management processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council.

### **(x) Ensuring effective management of change and transformation**

We commenced part II of our Transformation programme in 2012/13. This programme is in place to help us make significant savings over the next three years while preparing to deal with increasing demand for our services and changes in the ways that we need to work – both internally and with our communities and partners.

The Transformation Support Unit (TSU) is a service in the Council tasked with coordinating and supporting our Transformation process. It does this through providing three key services: Planning and Design; Delivery; and Governance and Reporting, linked very closely to the Finance Team. The Executive Director for Transformation is responsible for the leadership of the TSU, liaising with Cabinet and other CLT members to drive the programme and help ensure that all TSU activity is driven by our vision and corporate plan. Progress is closely monitored by CLT and the Outcomes Board, which is a transformation-focused board chaired by the Deputy Leader. All business cases must undergo legal and financial scrutiny before they are received by the Outcomes Board, which robustly challenges and filters business cases before they are taken to the relevant Cabinet Member in the usual decision-making process. The Corporate Programme Office

## Section Three – Governance Statement

---

has been set up to support our Transformation programme and ensure that rigorous standards of governance are applied throughout the project stages: initiation, concept, definition, implementation and closure.

A key component of the Transformation Programme has been the design and announcement during 2012/13 of the intention to merge the children and adults functions, including the statutory posts of DASS and DCS and separate the delivery of services from the commissioning of them, although the implementation of this did not take place during 2012/13. Before embarking on this radical and innovative change, the Council undertook a thorough risk assessment in line with government guidance on good practise and enlisted the support of an independent expert in this process. Commissioned by the Council's Monitoring Officer, the risk assessment was led by the expert but involved a wide range of stakeholders, including officers and members, and including the independent chairman of the council's two safeguarding boards. The final report has been presented to members and will be presented to the Cabinet in due course.

- (xi) Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) and, where they do not, explain why and how they deliver the same impact**
- (xii) Ensuring the authority's assurance arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact**
- (xiii) Ensuring effective arrangements are in place for the discharge of the monitoring officer function**
- (xiv) Ensuring effective arrangements are in place for the discharge of the head of paid service function**

Our financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). Our assurance arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010). See paragraph (xvi) for more information. Our Head of Paid Service is the Chief Executive, our Chief Financial Officer is the Executive Director for Finance and our Monitoring Officer is the Assistant Director Corporate Law and Governance. All these and the Head of Internal Audit were in post throughout this period and were supported by the organisation to discharge their full roles effectively and proactively.

## Section Three – Governance Statement

---

**(xv) Undertaking the core functions of an audit committee, as identified in CIPFA’s Audit Committees: Practical Guidance for Local Authorities**

The Audit Committee has undertaken the key functions required of it by CIPFA’s document [Audit Committees: Practical Guidance for Local Authorities](#). Its role and purpose is set out in Article 8 of the [constitution](#).

The Committee continues to have a close working relationship with our internal and external auditors. During 2012/13 the Audit Commission ceased to be our external auditors and were replaced by Ernst and Young. The Audit Committee played an active role in relation to risk management and counter-fraud, as stated in points 8 and 9 above.

In September 2012, the Audit Committee approved the Council’s 2011/12 Statement of Accounts. In March it approved the approved the 2012/13 audit plan with **2,121** audit days (excluding external clients).

The Audit Committee have met four times during the 2012/13 financial year. Their work has included receiving audit progress reports, including detail of all limited assurance reviews from the Head of Internal Audit and the extent to which remedial recommendations have been implemented.

The committee’s public agendas and papers are available on [our website](#).

**(xvi) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

The Assistant Director Corporate Law, as Monitoring Officer, is responsible for ensuring lawfulness and fairness in decision making. The Executive Director for Finance, as Section 151 Officer, is responsible for financial administration and financial probity and prudence in decision making. Both roles are defined within Part 2 of the [Constitution](#). The Section 151 Officer is a member of our Corporate Leadership Team.

The Head of Internal Audit is responsible for providing assurance on internal controls, ensuring that there are adequate mechanisms in place for the investigation and reporting of fraud, as well as evaluating that the Risk Management Framework is robust.

Six-monthly meetings are held between each Executive Director, the Head of Financial Compliance and Head of Internal Audit to review working processes and practices and consider the system of internal control operating within the specific service areas. Each Executive Director is required to complete an evidence-based Service Assurance Statement (SAS), accompanied by a plan setting out actions to be taken to strengthen any areas of weakness. These Statements are formally signed off by the Executive Director for each service area at the end of the year. The organisation’s 2012/13 Service Assurance Statements returned ‘good’ or ‘excellent in all areas for all criteria except three – which

## Section Three – Governance Statement

---

are nonetheless rated 'adequate'. The relevant directors are aware and responsible for securing improvement in these three areas.

We have a strong corporate legal team led by the Monitoring Officer and sitting at the heart of the organisation which provides advice to officers from all areas. The team work closely with the traded legal team who provide advice on the full range of council functions from education to employment. All reports prepared for Cabinet require legal advice to be sought prior to their submission, and all reports to Cabinet and CLT must incorporate the comments of both the Section 151 Officer and Monitoring Officer before they are submitted for consideration. The system of delegations outlined above (see part 5) ensures compliance with the *ultra vires* doctrine whilst allowing the Council to fully utilise its powers.

Accordingly, we actively observe both the specific requirements of legislation and the general responsibilities placed on us by public law, bringing the key principles of good administrative law into our processes and decision making.

### **(xvii) Whistleblowing and for receiving and investigating complaints from the public**

We provide a number of ways for employees, consultants or contractors to raise any concerns they have in the workplace; concerns might include bullying or any illegal, improper or unethical conduct. Our Whistle-Blowing Policy continues to be available for employees through the 'Working Here' intranet site, and provides them with advice and guidance about informal and formal ways to raise concerns relating to wrongdoing.

An external company called Expolink provides us with an independent and confidential route for any whistle-blowing allegations from staff and contractors. Any referrals through this route are rigorously investigated through a set process. A publicity programme about this called the 'Speak Up! campaign' was launched in 2011 to all our staff and contractors. These arrangements are also covered in our corporate governance e-learning training (How We Behave and Anti-Fraud & Corruption – see paragraph (xviii)).

We have a strong counter-fraud team that supports investigations into allegations raised through any of the above routes and instigates appropriate recovery action where necessary. Arrangements for referrals to the team are also articulated in the corporate governance e-learning training. The team continues to work closely with external agencies including our external auditors, the Police and the Department of Work and Pensions.

We value complaints, comments and compliments received from our customers and the feedback obtained is used within our planning processes to help develop our services. We have a comprehensive complaints procedure which is accessible by the public [through our website](#). In addition, we have a corporate policy called 'Responding to complaints, comments and compliments' which sets out for employees the expectations and timescales to be applied in responding to our customers. Response performance is

## Section Three – Governance Statement

---

reported and monitored via the Corporate Governance Scorecard as well as being included in our wider performance reporting framework (see point 4). This scorecard is also one of the routes by which we monitor the frequency and type of issues which go through the Local Government Ombudsman (LGO).

**(xviii) Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training;**

After a rollout across the organisation in 2011/12, we now ask all new employees to complete our comprehensive corporate governance e-learning programme - it is mandatory for employees and strongly recommended to Members. The modules are due to be reviewed every 2 years and are called:

- Good decision making
- How we behave
- Information Governance
- Anti-fraud and Corruption
- Equality & Diversity

The deadline for the initial rollout to all employees was the end of September 2012. By this point over 6,000 employees had completed all five modules, representing 96% of the employees to whom the modules were deemed to apply. New employees are required to complete the e-learning within six weeks of arriving in the organisation and this is monitored by line managers, overseen by Operations Board and prompted by Information Champions where necessary.

During 2012/13 we developed a sixth module for release in 2013 on the subject of Health and Safety.

Our employees' annual training and development needs are identified through the individual's performance management process, called 'My Performance'. Each individual's objectives are linked via team and service plans to the Council's overarching priorities in a 'golden thread'. In addition to our comprehensive induction programme, there are a number of internal training courses available to employees, covering a wide range of topics and issues. A schedule of forthcoming corporate training events is available through the 'Working Here' intranet page.

In 2012/13 we also continued to host tailor-made senior leadership development programmes for employees, called the Emerging Leaders Programme and the Leadership Academy, which were run in conjunction with partners.

In March 2013 we were awarded East of England Member Development Charter status, in recognition of our robust and structured approach to enhancing and honing Member Development, including having personal development plans in place for each Member and providing a number of development sessions in the form of seminars, workshops and

## Section Three – Governance Statement

---

drop-in sessions throughout 2012/13. The Member Development Steering Group is a Councillor group supported by Council employees, and they have been a key driving force in achieving Charter status.

**(xix) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation;**

We continue to develop clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

Our [website](#) is accessible to a wide audience, with relevant and regularly-updated news articles on our homepage and space for an on-line poll which allows us to consult members of the public on topical issues.

Copies of the agendas, documents, minutes and decisions of all of our Committees, Cabinet and Council are available promptly through our website and we have an interactive online calendar of future meetings to enable public attendance where appropriate.

We are committed to being open and transparent about how we spend money in order that we can be held fully accountable for this by our citizens. Accordingly we publish details of all items of spend, regardless of value. This includes monthly payment transactions made via p-card, employee expenses and accounts payable. All of this can be downloaded from [our website](#).

We have a page on our website called '[Your right to know](#)', which provides guidance for the public about what information is available to them and how they can access it.

All our communications are branded to ensure that they are easily recognised, and the information can be translated into different languages and alternative formats as required. This facility is widely publicised and applies to both printed materials and our website.

We have developed increased use of social media to communicate with our residents, including an active presence on Twitter and Facebook. We have a framework around officers' use of social media for work purposes, and the Monitoring Officer has published a social media guidance note for Councillors.

Our internal communications team work to make sure that our employees are kept updated. They use regular email newsletters, the Chief Executive's blog, regular Employee Road shows hosted by the Leader of the Council and the Chief Executive and more to provide employees with an opportunity to hear the latest news from across the organisation, ask questions and give feedback about issues important to their service areas.

## Section Three – Governance Statement

---

Annually the Council issues its 'Your Voice Employee Engagement Survey' which provides every employee with a chance to take part so that valuable feedback on a range of topics can be captured. The Your Voice survey provides feedback on areas of strength, and identifies areas of genuine employee concern. It is a completely confidential channel for upward communication, and gives the Council the ability to measure trends in employee engagement over time, and evaluate the effect of changes and initiatives. The results of the Your Voice survey are used to drive real improvements, and in 2012 the Corporate Leadership Team took time to analyse the results and ensure that action plans were implemented where necessary.

**(xx) Enhancing the accountability for service delivery and effectiveness of other public service providers (In England this includes powers granted to local authorities under the Health and Social Care Act 2012 and the Police Reform and Social Responsibility Act 2011)**

We have set up a Health and Wellbeing Board in accordance with the Health and Social Care act 2012, and the Essex Police and Crime Panel in accordance with the Police Reform and Social Responsibility Act 2011. Information about both, including a calendar of meetings and all past agendas and papers, is available on [our website](#).

Information is also available on [our website](#) about the Health Overview and Scrutiny Committee and its two sub-groups: the Child Adolescent Mental Health Scrutiny Study and the Dementia Task and Finish Group.

**(xxi) Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships (Governing Partnerships: Bridging the Accountability Gap (Audit Commission, 2005)), and reflecting these in the authority's overall governance arrangements**

In December 2011, central government selected Greater Essex as one of four national [Whole Place Community Budget \(WECB\)](#) pilot areas. Since then, local and national partners have worked to deliver a set of proposals capable of delivering better, more cost-effective public services. These proposals were articulated through an [operational plan](#) and suite of business cases submitted to Government in October 2012. Between October 2012 and March 2013 resources were committed to detailed implementation plans and governance to deliver these proposals and develop further opportunities.

Partnership Governance arrangements have evolved as the Whole Essex Community Budget pilot has developed. Through the pilot phase Executive and Sounding Boards were established. The **Sounding Board** did not hold formal decision-making powers, but provided informal guidance and direction to the programme. The **Executive Board** was established to set the strategic direction and be the programmes decision making board on behalf of all public service providers. From March 2013 these boards were replaced by

## Section Three – Governance Statement

---

The **Essex Partnership Board** which provides leadership to help shape the strategic direction of local public services based on ‘whole-systems’ approaches and support the delivery of public sector reforms.

Our countywide thematic partnerships remain responsible for setting their own priorities within the context of the broader Essex Strategy (our [Sustainable Communities Strategy 2008-2018](#)). These partnerships have also steered, challenged, developed and championed WECB projects, providing strategic input throughout. They are as follows: -

- Health and Well Being Board
- Safer Essex (The Safer Essex Partnership has supported the Police and Crime Commissioner following his election in November 2012)
- [South East Local Enterprise Partnership](#)

Following our review of partnership working arrangements back in 2011 we introduced Locality Boards, a mechanism for members from both tiers of local government in an area to get together and understand/prioritise issues of strategic importance to that locality: bringing together intelligence, performance information and the views of their electorate to inform commissioning and scrutiny. Such arrangements have been in place in 7 of our 12 Districts.

A locality review will be undertaken in 2013/14 to consider our locality working arrangements more fully including the current and future role of these boards.

As we continue through our on-going Transformation programme and many of our partners also experience a period of significant change, our governance arrangements, including in respect of partnerships will need to remain under review in order to ensure they stay effective in response to new challenges and relationships. Our governance arrangements have already changed to reflect the new political management structure that has been created. A Governance work stream has commenced in the Transformation programme which will ensure this issue stays live as the organisation continues to transform.

### 5. Review of effectiveness

We have a responsibility to conduct, at least annually, a review of the effectiveness of our governance framework including the system of internal control. The review of effectiveness is informed by the work of senior officers who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit’s annual report, our own Service Assurance Statements and from comments received from external auditors and other review agencies and inspectorates.

In the Annual Audit Report the Head of Internal Audit can give an opinion of either ‘adequate’ or ‘inadequate’ assurance. His opinion for 2012/13 is that we have ‘adequate assurance’ overall for

## Section Three – Governance Statement

---

our systems of internal control. This means that there is a sound system of internal control, adequately designed to meet the council's objectives, and controls are generally being applied consistently.

In 2012/13 we carried out **99** audits (including schools) across our full range of functions, services and directorates. **73%** of our reviews received 'Full' or 'Substantial' assurance. Particularly strong or improved areas included:

- Pensions Investment – 'Full Assurance';
- Pensions Administration – 'Full Assurance';
- Treasury Management – 'Full Assurance';
- IT Asset Management - moved from 'Limited' to 'Substantial Assurance'; and
- Spendvision (Corporate purchase card system) – 'Substantial Assurance'.

Of the audits completed in 2012/13, **25** areas received 'Limited Assurance' and none received a 'No Assurance' opinion. Remedial recommendations have been agreed with the relevant service areas to effect the necessary control improvements for all of these reviews. Automated recommendation tracking and reporting software has been put in place this year to increase the robustness of our follow-up of audit recommendations, and all limited assurance reports are reviewed by Audit Committee.

Internal Audit reviews found all key fundamental systems to offer substantial or full assurance. Governance related Internal Audit reviews showed significant improvement on 2011/12 with Subject Access, Freedom of Information and Data Sharing all receiving improved assurance ratings of 'substantial assurance'.

Internal Audit visits to schools are prioritised based on a risk assessment of all schools, and **41** reports on schools were issued in 2012/13. The assurance outcomes were proportionately consistent with the previous year with **83%** receiving 'Substantial Assurance' and **17%** 'Limited Assurance' opinion. Follow-up reviews are undertaken where there is a 'Limited Assurance' opinion. We also undertake an annual analytical review of School Year-End Balances which is an important assurance tool encompassing the whole school population. The School Year-End Balances review returned an opinion of 'Substantial Assurance' in 2012/13.

From August 2012, enhancements were made in the tracking of Internal Audit recommendations with monthly automated emails being sent to owners of recommendations to request status updates via a web-based system. This fulfils one of the recommendations of the 2011/12 AGS. Summary reports on outstanding recommendations are presented to Directorate Management Team meetings quarterly, with progress reports on implementation of recommendations provided to Audit Committee. This has increased accountability and visibility of Internal Audit recommendations across the Council. All reviews with a 'No' or 'Limited' assurance opinion are also subject to a follow-up audit review.

In 2011/12 five referrals were made to the Information Commissioners Office (ICO) in respect of information breaches. Two of these await a response from the ICO at the time of printing and

## Section Three – Governance Statement

---

one is still under investigation. No further action has been required by the ICO in regard to the other two referrals. Nonetheless we have proactively undertaken a review of these incidents and reviewed our policies and procedures where necessary.

A review of governance arrangements was published by the Audit Commission in 2011/12 providing an assessment of the Council's response, as at October 2011, to governance issues previously highlighted by the Audit Commission.

The matters raised which were still outstanding at the end of March 2012 were:

- Following a review of the Chauffeur's terms and conditions, the actions arising had not yet been fully completed.
- There is a planned review in 2012/13 of the Council's scrutiny function to ensure it is effective and adds value.

These were included in the 2011/12 AGS action plan and were completed during 2012/13.

The recommendations from the Audit Commission's review of our Governance Arrangements were mostly carried out as part of a Corporate Governance Project. This project has now fully closed and all of our on-going corporate governance monitoring and improvement is embedded as part of our 'business as usual' work.

In March 2013 we won the national Local Government Chronicle Award in the category of Corporate Governance, following a submission and presentation about the work undertaken by the Corporate Governance Project and the wider organisation during 2012/13.

### 6. Significant governance issues

We have been advised by the Audit Committee about the implications of the review of the governance framework, and advised that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

- In August the Health and Safety Executive (HSE) raised some issues and concerns with us with respect to ECC's health and safety management control and management culture. Action was taken immediately to develop and implement an improvement action plan to ensure that the Council improved its record and credibility in this area. This included the appointment of an experienced and dedicated interim Head of Health & Safety, a review of our policies and procedures and an improved training plan for officers. The profile of the area has been raised across the organisation and the service has now stabilised but work is on-going to embed these improvements. Regular monitoring of progress with the improvement plans takes place with the Assistant Director of Corporate Law and Governance and through reporting to Operations Board and Corporate Health and Safety Board. Improvements delivered so far include (but are not limited to):
  - Comprehensive training programme delivered & new e-learning module developed

## Section Three – Governance Statement

---

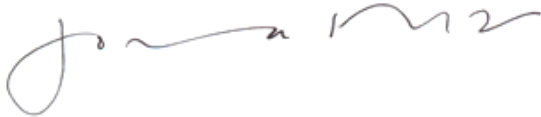
- New H&S Policies, procedures, risk assessments & Intranet site
- Corporate H&S Board and Directorate Committees established and formation of new stress steering group
- New accident reporting process with improved data and management information
- During 2012/13 the police announced that they would be taking no further action with regards to a criminal investigation into Lord Hanningfield relating to his ECC expenditure. We are looking at the possibility of taking legal proceedings against Lord Hanningfield and this is on-going. Updates have been provided to the Audit Committee throughout the year ([see 'meeting documents'](#)).
- As we develop and start to implement our new Transformation programme we continue to keep our governance structures and roles and responsibilities under review. The governance work stream of the Transformation programme is currently reviewing the governance arrangements to ensure they adequately reflect the new officer and political management structure delivered as part of Transformation programme. This work is on-going and will ensure that our officer and member delegations remain appropriate and effective throughout the change period.
- Partnership governance arrangements will need to remain under review throughout the coming year, in recognition of the changing partnership arena.
- As we move towards an outcomes based, commissioning led organisation the Council will need to develop and seek member approval for a range of high level outcomes which the Council want to achieve for its residents and others. These will be accompanied by a set of success indicators and key performance measures. Work is underway to develop this suite of outcomes, indicators and measures and will form part of our overall governance arrangements in due course.
- As we face the reality of the local government financial landscape it is important that we continue to ensure good governance in the face of increasing demand for services and diminishing resources. The Council will need to ensure that all managers and members understand the significance of good governance and that it is built into their roles and responsibilities, thereby ensuring that good governance is embedded in the organisation throughout this period of change.

## Section Three – Governance Statement

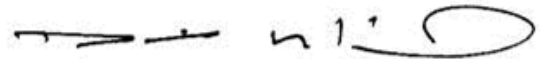
---

### 7. Future Action

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.



**Joanna Killian**  
**Chief Executive**



**Cllr David Finch**  
**Leader of the Council**

*Note: Councillor Peter Martin was the Leader of the Council during 2012/13, the period covered by this report. However, Councillor Martin did not stand for re-election in the May 2013 election. Cllr David Finch became the Leader of the Council following the election.*

This table contains key action points from the 2011/12 AGS, which were due to be implemented during 2012/13:

Findings	Action	Lead Officer	Action taken
1. The 2010/11 AGS Action Plan recognised the need to ensure governance arrangements are in place for the Council's Target Operating Model (TOM). A number of actions have been undertaken and there are on-going work streams to support this which are not yet complete.	To develop appropriate governance arrangements reflecting the TOM once agreed.	Assistant Director Corporate Law	The Corporate Leadership Team (CLT) have moved away from using the concept of a TOM ('Target Operating Model') but as we develop and start to implement our new Transformation programme we continue to keep our governance structures and roles and responsibilities under review. Our governance arrangements have already changed to reflect the new political management structure that has been created. A Governance work stream has commenced in the Transformation programme which will ensure this issue stays live as the organisation continues to transform.
	Review the Council's arrangements for good governance of companies and informal partnerships.	Assistant Director Corporate Law	A companies' database has been created and is held and maintained by the corporate law team. Legal advice is given on new initiatives in this area.
2. The implementation of the corporate governance project has been overseen by the Corporate Governance Steering Board. These matters now need to be embedded as business as usual.	Successfully embed the outcomes of the corporate governance project into business as usual.	Corporate Governance Manager	<p>The implementation of the corporate governance project and its handover to 'Business As Usual' has been overseen by the Corporate Governance Steering Board. The provision of a permanent budget and creation of a permanent corporate governance-focused role reporting to the Monitoring Officer is supporting a several pronged approach to embedding BAU:</p> <ul style="list-style-type: none"> <li>An update and rebrand of the Corporate Governance Intranet channel: 'How We Get Things Done', and representation on the steering board for the intranet update project.</li> </ul>

Findings	Action	Lead Officer	Action taken
	Complete the actions arising from the review of the Chauffeur's terms and conditions.	Deputy Chief Executive	<ul style="list-style-type: none"> <li>Initiation of a structured rolling review of key corporate governance documents and policies, facilitated by the creation of a database of these and supported by the redesigned intranet page.</li> <li>The implementation of a BAU work plan monitored by the Assistant Director Corporate Law.</li> <li>Engagement and awareness-raising initiatives and opportunities, including the corporate governance e-learning (now owned by Learning and Development under BAU), links to induction, links to other comms initiatives, focused use of internal social networks and sharing of best practise and developments in the field across the organisation.</li> </ul> <p>A complete service review has been undertaken and implemented along with a review of the policy for use of the remaining chauffeured car. The post has now been offered with revised terms and conditions.</p>
<p>3. To maintain and build on recent project-driven improvements to our corporate governance framework, the framework should be reviewed and a work plan adopted as 'business as usual' which ensures that the various parts of the framework will stay up-to-date and fit for purpose, proportionate to risk.</p>	Review the corporate governance framework and adopt a work plan for the organisation which ensures that the various parts of the framework are updated, fit for purpose and allocated to an appropriate senior officer for on-going management and maintenance.	Corporate Governance Manager	<p>The framework is now reviewed on a rolling basis with ownership for its constituent policies, protocols, guidance notes, publications etc. distributed across the organisation to the relevant senior managers.</p> <p>The Assistant Director Corporate Law has put in place a detailed work plan for BAU activity building upon the solid improvements made to date, planning strategically for the future and capturing new issues as and when they arise.</p>

Findings	Action	Lead Officer	Action taken
4. Ensure the Council's scrutiny function is effective and adds value.	Review the Council's scrutiny function to ensure it is effective and adds value.	Assistant Director Corporate Law	A complete review of Scrutiny took place across 2012/13 including full consultation with Councillors and senior officers. Recommendations arising from the review were agreed by Council on 14 May 2013. Implementation will now proceed under BAU.
5. Need to enhance current recommendation tracking arrangements to enable 'real-time' monitoring of progress of internal and external audit recommendations.	Implement an improved automated system for the tracking of internal and external audit recommendations	Head of Internal Audit	A new, automated system for tracking internal and external audit recommendations, called 'TeamMate' has now been rolled out across the organisation.

This table contains key action points to be implemented during 2013/14:

Findings	Action	Lead Officer
<b>1. Health &amp; Safety:</b> In August the Health and Safety Executive (HSE) raised a number of concerns with us with respect to ECC's health and safety management control and management culture. Action was taken immediately to develop and implement an improvement action plan to ensure that the Council improved its record and credibility in this area.	Complete and embed actions to ensure our Health and Safety arrangements are fit for purpose, including: <ul style="list-style-type: none"> <li>Recruit Health and Safety Manager.</li> <li>Put in place new staffing structure.</li> <li>Deliver all actions in the Health and Safety Action/Improvement Plan.</li> <li>Give final assurance to the Health and Safety Executive that our arrangements are suitable.</li> </ul>	Assistant Director Corporate Law and Governance
<b>2. Information Security:</b> In 2011/2012 five referrals were made to the Information Commissioners Office (ICO) in respect of information breaches. Two of these await a response from the ICO at the time of printing and one is still under investigation. No further action has been required by the ICO in regard to the other two referrals. Nonetheless we have proactively undertaken a review of these incidents and reviewed our policies where necessary.	We have proactively undertaken a review of these incidents and reviewed our policies where necessary – continue to monitor those referrals which currently remain open and identify whether any further areas of practise need to be improved to reduce risk in future.	Chief Information Officer
<b>3. Governance and Transformation:</b> The governance work stream of the Transformation programme is currently reviewing the Council's governance arrangements to ensure they adequately reflect the new officer and political management structure delivered as part of	<ul style="list-style-type: none"> <li>Continue to review our governance arrangements and implement any necessary changes to ensure they remain effective and reflect the new structures and roles and responsibilities being created under Transformation 2.</li> <li>Ensure our delegations of authority remain</li> </ul>	Assistant Director Corporate Law and Governance

Findings	Action	Lead Officer
<p>Transformation programme. This work is on-going and will ensure that our officer and member delegations remain appropriate and effective throughout the change period.</p> <p>Linked to this, partnership governance arrangements will need to remain under review throughout the coming year, in recognition of the changing partnership arena.</p>	<p>effective throughout the change period.</p> <ul style="list-style-type: none"> <li>Continue to review our partnership governance arrangements and develop clear guidance and protocols relating to the establishment of new companies, partnerships and trading vehicles.</li> </ul>	
<p><b>4. Defining Outcomes and KPMs:</b> As we move towards an outcomes based, commissioning led organisation the Council will need to develop and seek member approval for a range of high level outcomes which the Council want to achieve for its residents and others.</p>	<ul style="list-style-type: none"> <li>Develop clear set of corporate outcomes</li> <li>Create new corporate plan</li> <li>Develop a supporting set of outcome indicators and key performance measures</li> <li>Work with commissioners and others to determine how these will be achieved and monitored</li> <li>Develop appropriate mechanisms for monitoring success and performance</li> </ul>	<p>Director for Strategy and Communications</p>
<p><b>5. Risk Management:</b> The Internal Audit review of Risk Management arrangements produced a 'Limited Assurance' opinion. The Risk Assurance Statement 2012/13 recognises this, commenting that the key issues reported (i.e. monitoring of risk and definition of corporate risk appetite) had already been identified by the Strategic Risk Manager as areas of priority focus within both the Improvement Plan and the annual work stream plan for next year.</p>	<p>Complete and embed actions to ensure our Risk Management arrangements are fit for purpose, including:</p> <ul style="list-style-type: none"> <li>Recruit Head of Organisational Risk Services</li> <li>Put in place new staffing structure</li> <li>Complete all actions from the Risk Management Improvement Plan which includes all internal audit recommendations relating to Risk Management.</li> <li>Agree Risk Assurance Statement.</li> <li>Agree risk management strategy.</li> </ul>	<p>Assistant Director Corporate Law and Governance</p>

Findings	Action	Lead Officer
	<ul style="list-style-type: none"> <li>Implement new risk reporting mechanism in light of T2 changes.</li> </ul>	
<p><b>6. Embedding good governance:</b> As we face the reality of the local government financial situation it is important that we continue to ensure good governance in the face of increasing demand for services and diminishing resources. The Council will need to ensure that all managers and members understand the significance of good governance and that it is built into their roles and responsibilities, thereby ensuring that good governance is embedded in the organisation throughout this period of change.</p>	<ul style="list-style-type: none"> <li>Design and launch an additional six modules of Governance e-learning on Health and Safety. Target audience: all employees.</li> <li>Agree dates for refresh of the corporate governance e-learning course to officers and members under a two year cycle (with exception if legislation or policy changes dictate).</li> <li>Ensure responsibility for ensuring good governance such as Health and Safety, equalities, financial management and budgetary control, risk management etc is incorporated into job profiles, training and development programmes, My Performance objectives, values and behaviours and / or elsewhere within our HR documentation and policy framework.</li> </ul>	<ul style="list-style-type: none"> <li>Head of HR.</li> </ul>
	<ul style="list-style-type: none"> <li>Ensure ownership of key governance policies and other documents are allocated to senior managers, as appropriate.</li> <li>Ensure good progress is made in the on-going review of the documents comprised in our corporate governance framework.</li> <li>Ensure elected members are appropriately trained and have the right information to enable them to fulfil their roles properly and in accordance with principles of good governance.</li> </ul>	<ul style="list-style-type: none"> <li>Assistant Director Corporate Law and Governance</li> </ul>

Findings	Action	Lead Officer
7. <b>Lord Hanningfield:</b> During 2012/13 the police announced that they would be taking no further action with regards to a criminal investigation into Lord Hanningfield relating to his ECC expenditure. We are looking at the possibility of taking legal proceedings against lord Hanningfield and this is on-going.	Proceed openly and transparently with the decision around whether to take legal proceedings against Lord Hanningfield.	Assistant Director Corporate Law and Governance

# **Independent Auditor's Report**

# Section Four - Independent Auditor's Report

---

## Independent Auditors Report to the Members of Essex County Council

### 1. Opinion on the Authority's financial statements

#### 1.1 Opinion on the Authority's financial statements

We have audited the financial statements of Essex County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement and the related Authority notes 1 to 39 and Group Account notes 1 to 5. The financial reporting framework applied to their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Essex County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### 1.2 Respective responsibilities of the Executive Director for Corporate Services and auditor

As explained more fully in the Statement of Responsibilities set out on page 16, the Executive Director for Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### 1.3 Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the Executive Director for Corporate Services; and

## Section Four - Independent Auditor's Report

---

- The overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in Annual Financial Report 2012/13 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### 1.4 Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the financial position of Essex County Council as at 31 March 2013 and of its expenditure and income for the year then ended;
- Give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and
- Have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### 1.5 Opinion on other matters

In our opinion, the information given in Annual Financial Report 2012/13 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### 1.6 Matters on which we report by exception

We report to you if:

- In our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- We issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- We designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- We exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

## Section Four - Independent Auditor's Report

---

### **1.7 Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **1.7.1 Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **1.7.2 Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- Securing financial resilience; and
- Challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Section Four - Independent Auditor's Report

---

### 1.7.3 Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Essex County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

### 1.8 Pension Fund financial statements

On 30 September 2013 we issued our opinion on the Pension Fund financial statements for the year ended 31 March 2013 included within the Statement of Accounts.

### 1.9 Delay in certificate of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

**Andy Clewer**

**for and on behalf of Ernst & Young LLP, Appointed Auditor**

**Luton**

**30 September 2013**

# Section Four - Independent Auditor's Report

---

## 2. Opinion on the pension fund financial statements

### 2.1 Opinion on the pension fund financial statements

We have audited the pension fund financial statements for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Essex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### 2.2 Respective responsibilities of the Executive Director for Corporate Services and auditor

As explained more fully in the Statement of the Responsibilities set out on page 16, the Executive Director for Corporate Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### 2.3 Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director for Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report 2012/13 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Section Four - Independent Auditor's Report

---

### 2.4 Opinion on financial statements

In our opinion, the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### 2.5 Opinion on other matters

In our opinion, the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Peter O'Neill**  
**for and on behalf of Ernst & Young LLP, Appointed Auditor**  
**Reading**  
**30 September 2013**